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7.29.1978

Official Statement
and Bond Resolutions

City of MERCED

1978 SEWER REVENUE BONDS

\$3,250,000

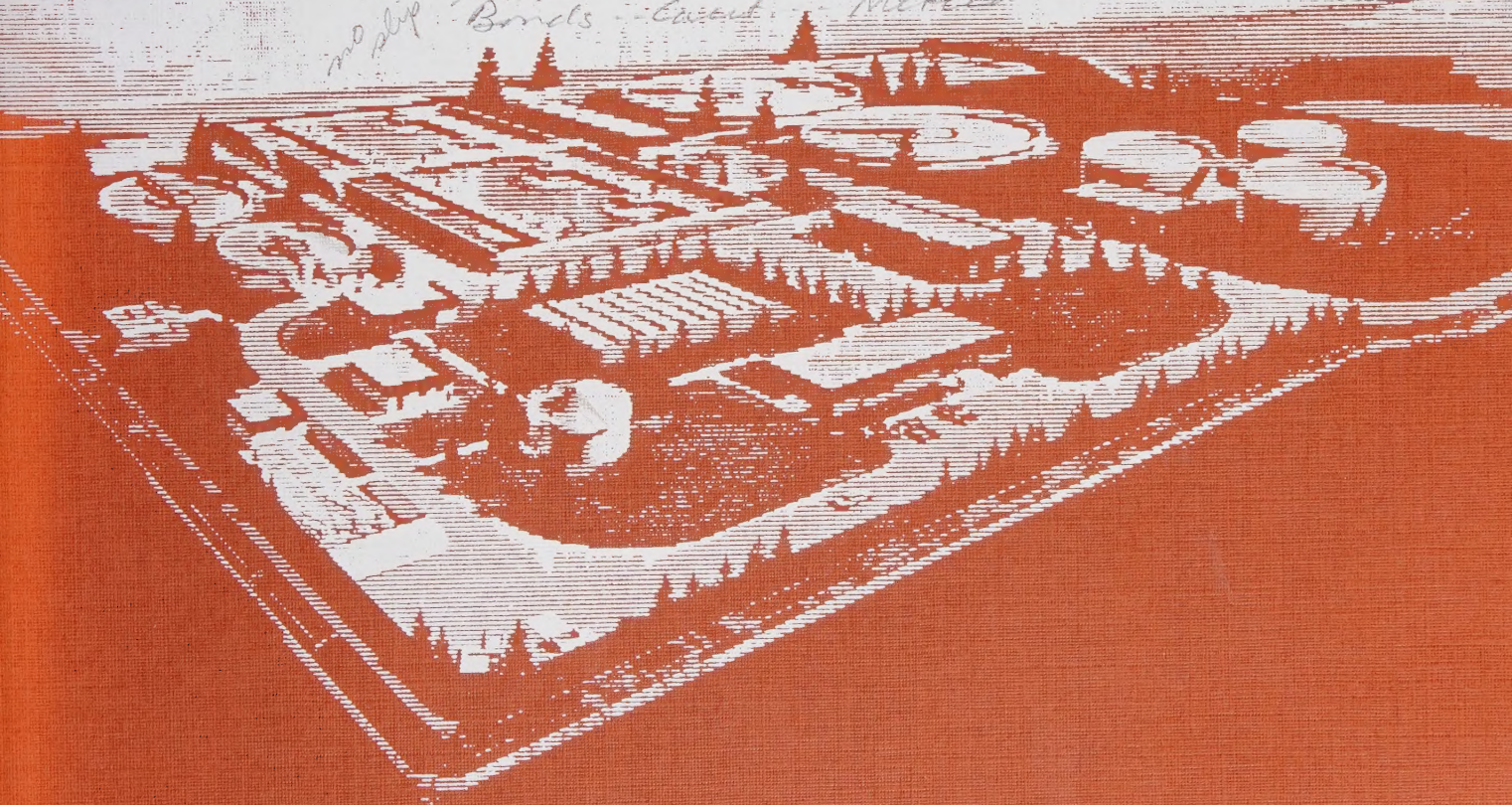
Principal Amount

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CITY OF MERCED

Merced County, California

CITY COUNCIL

William P. Quigley, *Mayor*

Carol Gabriault, *Mayor Pro Tem*

Carolyn Goings

Robert L. Hart

A. V. Henderson

Samuel C. Pipes

Donald M. Robinson

CITY STAFF

Allan R. Schell, *City Manager and Clerk*

Gerald R. Baugh, *Finance Officer*

William J. Adams, *City Attorney*

Stevan M. Stroud, *City Engineer*

Philip W. Block, *Planning Director*

William H. Cunningham, *Executive Officer (M.S.O.)*

Robert C. Bundy, *Executive Officer (Asst.)*

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington, Rowley & Sutcliffe, *San Francisco*

Consulting Engineers

CH₂M Hill, *Sacramento*

City Auditor

Wolf and Company, *Fresno*

Certified Public Accountants

Financing Consultants

Loeb Rhoades, Hornblower & Co., *San Francisco*

Fiscal Agent

Bank of America N. T. & S. A., *San Francisco*

THE DATE OF THIS OFFICIAL STATEMENT IS MARCH 20, 1978

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CITY OF MERCED
Merced County, California

March 20, 1978

TO WHOM IT MAY CONCERN:

The purpose of this bond prospectus is to furnish information regarding the \$3,250,000 City of Merced 1978 Sewer Revenue Bonds.

This prospectus was prepared by Loeb Rhoades, Hornblower & Co. as financing consultants to and under the direction of the City. Orrick, Herrington, Rowley & Sutcliffe serve as bond counsel to the City. Bond counsel's fees for services relating to the issue and sale of the bonds and the financing consultant's fees for services are contingent upon the sale and successful delivery of bonds.

The information herein has been reviewed by appropriate officials of the City as to accuracy and completeness (see item 2 under "Closing Papers" on page 4 of this prospectus) and the City has adopted this prospectus as its Official Statement in connection with the bonds herein being offered pursuant to Resolution No. 78-25.

The delivery of this Official Statement has been authorized by the City.

All of the following summaries of the Resolution of Issuance and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith. Any statements therein involving matters of opinion or estimates, whether or not so designated, are to be construed as provisional rather than factual. This Official Statement does not constitute a contract with purchasers of the bonds.

Loeb Rhoades, Hornblower & Co. may submit a bid for the bonds, and, if it is the successful bidder, may purchase the bonds and resell all or a portion of the bonds to the public.

s/WILLIAM P. QUIGLEY, Mayor

City of Merced

No dealer, broker, salesman or other person has been authorized by the City of Merced to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City.

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Audited Financial Statements (Appendices A and B),
Supplemental Resolution No. 78-25, Resolution No. 3733,
and Official Notice of Sale Following Page 30

INTRODUCTION

The \$3,250,000 City of Merced 1978 Sewer Revenue Bonds are to be issued pursuant to an ordinance of the city which incorporates all of the provisions of the Revenue Bond Law of 1941, except for the requirement of an election to authorize the bonds. The bonds are issued on a parity with the City of Merced 1971 Sewer Revenue Bonds, of which \$715,000 are outstanding. Bonds proceeds will be used in conjunction with state and federal grants to finance modifications to the existing sewage treatment plant and the development of a land application system to dispose of food processing wastewater.

The bonds are secured by sewer service charges which the city is obliged to maintain at a rate sufficient to meet all maintenance and operation expenses and to provide a minimum coverage of net revenues to bond service on all bonds of at least 1.35. A revenue program developed by the project engineers, CH₂M Hill, formed the basis of a new rate structure recently enacted by the city. According to the engineers' projections, the new rates are expected to generate \$619,000 net operating revenue in 1978/79 which would provide a 1.85 coverage on estimated debt service. The sewer service rates are charged as part of the city's utility bill, which includes water and refuse collection. The charges for service on the utility bill are inseparable and delinquencies result in abatement of water service.

The City of Merced is located in the San Joaquin Valley approximately 125 miles southeast of San Francisco. The city has a population of 31,700, and a 1977/78 assessed valuation for revenue purposes of \$102,540,610. The ratio of net direct and overlapping bonded debt to assessed valuation is 5.86 percent and the ratio of direct debt to assessed valuation is 4.81 percent.

TABLE 1
SELECTED ESSENTIAL FACTS

The Bonds	
Principal amount	\$3,250,000
Maturities	1979-2008
Denominations	\$5,000
Average life (years)	22.83
Bond years	74211
Maturities callable 1991 or after	1992-2008
Maximum coupon rate	8%
Maximum coupon spread	2%
The Enterprise	
Estimated population served	37,500
Estimated 1978/79 net operating revenue	\$619,000
Estimated 1978/79 debt service on all bonds	\$334,000
Mandatory minimum coverage	1.35
Projected 1978/79 coverage to debt service	1.85
Projected 1979/80 coverage to debt service	2.04
Financial and Economic Data	
Estimated 1977 city population	31,700
1977/78 assessed valuation	\$102,540,610
Per capita assessed valuation	\$3,235
Ratio direct debt to assessed valuation	4.81%
Ratio gross direct and overlapping indebtedness to assessed valuation	5.86%
1977 new construction valuations	\$22,061,000
1976 gross value of Merced County agricultural crops	\$465,713,500



THE BONDS

Authority for Issuance

The \$3,250,000 City of Merced 1978 Sewer Revenue Bonds are to be issued pursuant to Resolution No. 3733, adopted April 5, 1971, as supplemented by Resolution No. 78-25, adopted March 20, 1978. The bonds are being sold under provisions of the City Charter and Ordinance No. 1007, as amended by Ordinance No. 1214, adopted by the City Council pursuant to the authority of Sections 200 and 201 of said Charter, which Ordinance authorizes the City Council to issue revenue bonds pursuant to the provisions of the Revenue Bond Law of 1941 except for the requirements of an election.

Description of Bonds

The bonds consist of \$3,250,000 aggregate principal amount numbered 1 to 650, inclusive, each in the denomination of \$5,000, dated April 1, 1978. The first interest payment, representing seven months' interest from the date of the bonds, is due November 1, 1978. Thereafter, interest is payable semi-annually on May 1 and November 1. Both principal and interest are payable in San Francisco at the principal office of the Bank of America N.T. & S.A., the city's fiscal agent.

Schedule of Maturities

The bonds are to mature and become payable on May 1 of the years specified in the adjacent table.

Legal Opinion

The unqualified legal opinion of Orrick, Herrington, Rowley and Sutcliffe attesting to the validity of the bonds will be supplied free of charge to the original purchasers of the bonds. A copy of the legal opinion, certified by the City Clerk of the City of Merced, will be printed on each bond without charge to the successful bidder.

Redemption Provisions

Bonds maturing on or before May 1, 1991, a total principal amount of \$170,000, are not callable prior to their maturity dates. Bonds maturing on or after May 1, 1992, a total principal amount of \$3,080,000 are callable prior to their maturity dates, as a whole or in part, in inverse order of maturity and by lot within any one maturity, from funds derived by the city from any source on any interest payment date on or after May 1, 1991, at the option of the city, at the principal amount and accrued interest to the date of redemption plus a premium of $\frac{1}{4}$ of one percent for each year or fraction of a year from the redemption date to the maturity date of the bonds.

Notice of redemption is to be published once a week for two successive weeks in a financial newspaper or journal of general circulation in San Francisco, California, or in New York, New York, at least 30 days but not more than 60 days prior to the redemption date. Notice of redemption is to be mailed to the original purchasers of the bonds and to the holders of any registered bonds designated for redemption.

Fiscal Agent

The Bank of America N.T. & S.A. has been appointed by the city as fiscal agent in connection with the outstanding 1971 Sewer Revenue Bonds and the current issue of bonds. The fiscal agent is authorized to maintain the Reserve Account and to pay interest on and principal of all bonds when due. The Resolutions require that certain notices and reports be given the fiscal agent to demonstrate the city's compliance with the Resolutions and for such purposes as the issuance of additional bonds.

SCHEDULE OF MATURITIES

Maturity Date (May 1)	Principal Amount
1979	\$ 10,000
1980	10,000
1981	10,000
1982	10,000
1983	15,000
1984	15,000
1985	10,000
1986	15,000
1987	15,000
1988	15,000
1989	15,000
1990	15,000
1991	15,000
1992	100,000
1993	105,000
1994	115,000
1995	125,000
1996	130,000
1997	140,000
1998	150,000
1999	160,000
2000	170,000
2001	185,000
2002	195,000
2003	210,000
2004	225,000
2005	240,000
2006	260,000
2007	275,000
2008	295,000

Tax-Exempt Status

In the opinion of bond counsel, under existing statutes, regulations, and court decisions, the interest on the bonds is exempt from all present Federal income taxes and from State of California personal income taxes; and the bonds are exempt from all California taxes except inheritance, gift, and franchise taxes.

Closing Papers

Each proposal for bids on the bonds will be understood to be conditioned upon the city furnishing to the purchaser, without charge, concurrently with payment for and delivery of the bonds, the following closing papers, each dated the date of such delivery:

1. Legal opinion—The unqualified opinion of Orrick, Herrington, Rowley & Sutcliffe, Bond Counsel, approving the validity of the bonds and stating that interest on the bonds is exempt from income taxes of the United States of America under present federal income tax laws, and that such interest is also exempt from personal income taxes of the State of California under present state income tax laws.

2. At the time of payment for and delivery of the bonds, the city will furnish the successful bidder a certificate, signed by appropriate officers of the city acting in their official capacity, to the effect that to the best of their knowledge and belief, and after reasonable investigation, (a) neither the Official Statement or any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (b) since the date of the Official Statement no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement; nor (c) has there been any material adverse change in the operation or financial affairs of the city since the date of such Official Statement.
3. A certificate of an officer of the city that on the basis of the facts, estimates and circumstances in existence on the date of issue, it is not expected that the proceeds of the bonds will be used in a manner that would cause the bonds to be arbitrage bonds.
4. A certificate signed by an officer of the city that there is no litigation threatened or pending affecting the validity of the bonds.
5. The signature certificates of the officers and representatives of the city, showing that they have signed the bonds, whether by facsimile or manual signature, and that they were respectively duly authorized to execute the same.
6. The receipt of the fiscal agent of the city showing that the purchase price of the bonds, including interest accrued to the date of delivery thereof, has been received by the city.

Registration

Coupon bonds will be issued by the city. The bonds are registrable as to both principal and interest, at the holder's option, with privilege of deregistration and conversion into coupon bonds at the owner's expense.

Security

The bonds and the outstanding City of Merced 1971 Sewer Revenue Bonds are equally secured by an exclusive pledge and charge upon revenues. As defined in Resolution No. 3733, "revenues" include gross receipts from the operation of the Enterprise which is comprised of the city's sewer system and all future additions, improvements, betterments, and extensions of these facilities.

"Revenues" do not include sewer facilities charges, sewer extension charges, sewer connection charges, and refundable deposits to establish credit. The city must maintain revenues at a level sufficient to provide a minimum coverage of net revenues to bond service of at least 1.35.

The bonds are revenue bonds and do not constitute a debt of the City of Merced. The bonds are not secured by the taxing power of the City of Merced, nor may any recourse be had for their payment against the general fund of the city. The bonds are not secured by a pledge, charge, lien or encumbrance upon any of the property of the city or any of its income except the revenues.

Disposition of Bond Proceeds

The fiscal agent will receive the proceeds from the sale of the 1978 Sewer Revenue Bonds and apply them as follows:

Interest Account: A sum equal to the amount of interest becoming due on the bonds to and including May 1, 1979 will be deposited into the Interest Account.

Reserve Account: A sum will be deposited in the Reserve Account which will bring it up to maximum annual debt service on the bonds and the outstanding City of Merced 1971 Sewer Revenue Bonds.

Construction Fund: The remainder of bond proceeds will be transferred to the Finance Officer for deposit in the Construction Fund and used for the completion of the project. Any balance remaining in the Construction Fund after the project is completed will be transferred to the fiscal agent for deposit into the Reserve Account if needed to comply with provisions of the Resolution. Any remaining balance thereafter is to be deposited into the Revenue Fund and applied for any authorized purpose.

Creation of Special Funds

Resolution No. 3733 and Resolution No. 78-25 provide for the establishment of special funds and accounts to be held and administered by either the fiscal agent or the Finance Officer. These funds and accounts will be employed in connection with the operation of the Enterprise as shown in the following table.

TABLE 2
FUNDS ESTABLISHED BY BOND RESOLUTIONS

<i>Fund or Account</i>	<i>Source</i>	<i>Use</i>
Construction Fund [Resolution No. 78-25, Section 12] (maintained by the city after initial transfers to the Interest and Reserve Accounts are made by fiscal agent)	Bond proceeds	Construction, balance to Reserve Account and Revenue Fund as indicated in the Resolution
Sewer Revenue Fund [Resolution No. 3733, Section 4.01] (maintained by city)	All sewer system revenues	Transfers to the Interest, Principal, Maintenance and Operation, Reserve, and Surplus Revenue Accounts, in order of priority
Interest Account [Resolution No. 3733, Section 4.03(1)] (maintained by fiscal agent)	Bond proceeds and Revenue Fund	Bond interest
Principal Account [Resolution No. 3733, Section 4.03(2)] (maintained by fiscal agent)	Revenue Fund	Bond principal
Maintenance and Operation Account [Resolution No. 3733, Section 4.03(3)] (maintained by city)	Revenue Fund	Maintenance and operation of Enterprise
Reserve Account [Resolution No. 3733, Section 4.03(4)] (maintained by fiscal agent)	Bond proceeds and Revenue Fund	Bond principal and interest
Surplus Revenue Account [Resolution No. 3733, Section 4.03 (5)] (maintained by city)	Revenue Fund	Any authorized purpose after all other accounts have been paid in full in accordance with Resolution

Application of Revenues

The gross revenues of the Enterprise are to be deposited by the Finance Officer into the Sewer Revenue Fund which was established under City Ordinance 1007 passed on February 16, 1971.

Interest Account: On or before the first day of October and the first day of April, an amount equal to the next interest payment payable on all outstanding bonds is to be transferred to the fiscal agent for deposit into the Interest Account. No deposit need be made if the amount contained in the Interest Account is at least equal to the interest payable on the next succeeding interest payment date. Moneys in the Interest Account may be invested in securities maturing not later than the date moneys are needed.

Principal Account: On or before the first day of April an amount is to be transferred to the fiscal agent for deposit in the Principal Account which is equal to at least the aggregate amount of principal becoming due and payable on the outstanding bonds on the next succeeding May 1.

Moneys in the Principal Account may be invested in securities maturing not later than the date needed.

Maintenance and Operation Account: The Finance Officer, on or before the first day of each month, shall deposit into the Maintenance and Operation Account the budgeted amount of money needed to maintain and operate the Enterprise during the month.

Reserve Account: An amount sufficient to increase the amount on deposit in this account to the maximum annual debt service will be deposited into this account from bond proceeds. Moneys in this account must be maintained in an amount equal to maximum annual debt service. All moneys in the Reserve Account are to be used by the fiscal agent solely for replenishing any deficiency in the Interest Account or Principal Account or the payment of principal and interest on the bonds in the event no other moneys are available.

Moneys in the Reserve Account are to be invested by the fiscal agent at the direction of the city.

Surplus Revenue Account: All moneys remaining in the Sewer Revenue Fund on each April 1 after depositing all of the sums required to be set aside in the Interest Account, Principal Account, Maintenance and Operation Account, and Reserve Account shall be deposited in the Surplus Revenue Account which may be used for any lawful purpose of the city, including maintenance and operation costs of the Enterprise; extensions, improvements, or betterments to the Enterprise; or the purchase or redemption of Bonds.

Additional Bonds

Section 3.03 of Resolution No. 3733 provides that additional bonds may be issued on a parity with the 1971 Sewer Revenue Bonds and the current issue of bonds provided the following requirements are met:

1. The city shall be in compliance with all covenants of Resolution No. 3733 and all supplemental resolutions thereto and a certificate of the city to that effect shall have been filed with the fiscal agent.
2. The issuance of additional bonds shall have been duly authorized and the issuance of the additional bonds shall have been provided by a supplemental resolution adopted by the city council.
3. Proceeds of additional bonds are to be applied solely for the purpose of making improvements or additions to the Enterprise or for refunding bonds of earlier issues.
4. Additional bonds must mature only on May 1 of any year and interest shall be payable semi-annually, or annually for the first year and semi-annually thereafter. Provision must be made through serial maturities or minimum sinking fund payments for retirement of additional bonds on or before their respective maturity dates.
5. An additional amount is to be deposited in the Reserve Account so that its balance will be equal to the maximum annual debt service on all outstanding sewer revenue bonds and the additional bonds.
6. Actual annual net revenues for the last fiscal year or for the last twelve-month period preceding adoption of a supplemental resolution must have been equal to at least 1.35 times maximum annual debt service on all outstanding sewer revenue bonds and the additional bonds.

Resolution No. 3733 permits credit for estimated future earnings from extensions and improvements to the Enterprise and from increased rates and charges provided they are certified by a qualified independent engineer. In the case of additional bonds to be issued to finance improvements and additions to the Enterprise, 75% of the estimated average annual net revenue to be derived from the improvements and additions during the first three years after completion of the improvements may be added to actual net revenues for the preceding fiscal year or twelve-month period and treated as if actually received by the city. In the case of earnings arising from an increase in rates or charges which have not been in effect for a full fiscal year or twelve-month period, an allowance will be made equal to 75% of the amount by which net revenues would have been increased if such increases had been in effect for the entire fiscal year or twelve-month period.

To the extent that additional bonds are issued to refund outstanding bonds, the debt service on the bonds to be refunded is to be excluded from the computation described above.

Maintenance of Rates and Charges

The city covenants that so long as any of the bonds are outstanding it will fix, prescribe, and collect rates, fees, and charges for services and facilities of the Enterprise so as to yield revenues sufficient to pay the following amounts:

1. Interest and principal of the bonds as they become due and payable.
2. All payments required to comply with the terms of Resolution No. 3733 and any supplemental resolution or resolutions providing for the issuance of additional bonds.
3. All payments to meet any other obligations of the city which are charges, liens, encumbrances upon, or payable from the revenues, and
4. All current costs of maintenance and operation of the Enterprise.

In addition, the city covenants that while any of the bonds remain outstanding, rates, charges, and fees for services and facilities furnished by the Enterprise will be fixed, prescribed, and collected so as to yield net revenues during the then immediately ensuing twelve-month period equal to at least 1.35 times annual debt service. Net revenues are defined as the gross revenues of the Enterprise remaining after payment of maintenance and operation costs.

Additional Covenants

Additional covenants contained in Resolution No. 3733 include the following:

1. The city will punctually pay or cause to be paid the principal and interest to become due in respect to all the bonds, in strict conformity with the terms of Resolution No. 3733.
2. The city will not sell, lease, or otherwise dispose of any part of the Enterprise unless provision is made for the continuance of payments into the Revenue Fund sufficient to permit payment of bond principal and interest, any applicable premium, and provide for payments into the various funds required by Resolution No. 3733.

If all or any substantial part of the Enterprise is condemned or sold under threat of condemnation, the proceeds of such award or sale must be applied to the construction and/or acquisition of new facilities or used to retire or redeem outstanding bonds.

3. The city will maintain the Enterprise in good repair and working order at all times from the revenues available for such purposes and will operate the Enterprise in an efficient and economical manner.
4. The city will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien upon the revenues or otherwise impair the security of the bonds.
5. The city will maintain or cause to be maintained insurance on the Enterprise against such risks as are usually insurable in connection with similar enterprises. If any part of the Enterprise is damaged or destroyed, insurance proceeds are to be used to restore it to use, and to the extent not so applied must be deposited in the Revenue Fund.
6. The city will secure and maintain fidelity insurance or bonds on all officers and employees responsible for any revenues or funds of the Enterprise.
7. The city will preserve and protect the security of the bonds and the rights of the bondholders, and will warrant and defend their rights against all claims and demands of all persons.
8. The city will keep proper books of records and accounts of all transactions relating to the Enterprise. Such books will at all times be subject to inspection by the fiscal agent or holders of not less than 10% of the principal amount of the bonds then outstanding.

The city will prepare and file with the fiscal agent annually:

- a. A detailed statement for the preceding fiscal year showing the revenues, all disbursements from the revenues and all expenditures applicable to the Enterprise.
- b. A detailed balance sheet reflecting the financial condition of the Enterprise, including the balances in all funds held by the Finance Officer and the fiscal agent.
- c. A statement as to the manner and extent to which the city has complied with the provisions of Resolution No. 3733.
- d. A general statement showing the schedule of service charges as of the close of the fiscal year, and the gross revenues received during such fiscal year.
- e. A statement as to all insurance carried by the city as of the end of such fiscal year.
- f. A reasonably detailed summary statement prepared annually showing the amount of the revenues and the disbursements from the revenues for the preceding fiscal year, and a general statement of the financial and physical condition of the Enterprise. The city will furnish a copy of the summary statement to any bondholder upon request, and will furnish to the fiscal agent copies for distribution to holders of bonds requesting copies.

THE PROJECT

The project being financed from proceeds of the 1978 Sewer Revenue Bonds consists of extensive modifications to the existing wastewater treatment plant in order to meet current state and federal water quality standards and a land application system designed to dispose of wastewater from canning and food processing industries. Approximately 80% of the project is being financed with grant proceeds.

The Present System

The existing sewer system serves a population of approximately 37,500 with a design capacity of 15 million gallons per day (mgd). The treatment process consists of primary treatment followed by oxidation ponds and disinfection. Principal users include residential, commercial, and light and heavy industrial customers. A substantial portion of the design capacity of the system is used to treat wastewater generated by canning and food processing industries. Average daily use during the canning season approximates 12.9 mgd with industrial waste accounting for 7.6 mgd. During winter months, when these industries are not operating, average daily flow is approximately 7 mgd, attributed to domestic, commercial and storm-runoff wastewater. The principal reason for upgrading the system is to improve the quality of discharge which is presently characterized by higher biochemical oxygen demands (BOD), higher coliform levels, and lower dissolved oxygen levels than acceptable according to current state and federal water quality standards, particularly during the canning season.

The Proposed System

The proposed system consists of a treatment plant with a design capacity of 10 mgd and a land application system designed to accommodate food processing wastewater, both of which will meet current state and federal water quality standards. Although the design capacity of the modified plant is less than the existing facility, the new plant is able to provide higher quality treatment to all existing domestic, commercial, and light-industrial customers since the food processing industries will no longer be connected and the plant is being upgraded in terms of levels of treatment. Additionally, since the average daily flow during peak use for the revised customer base is 7 mgd, the modified plant has a capacity for future growth generating 3 mgd of wastewater.

The major industries that will not utilize the modified treatment plant for food processing wastewater include Ragu' Foods, Inc. (Ragu') and California Cannery and Growers (Cal Can). Ragu' will be the principal user of the land application system being developed as part of the 1978 Bond project. Cal Can is developing its own land application system to treat its canning wastewater. The Cal Can system will cost approximately \$1 million to complete. The major cost involved is land acquisition. Cal Can has entered into a lease-purchase agreement for approximately 500 acres located immediately south of its plant. A discussion of the operations of Ragu' and Cal Can is presented on page 26.

Physical modifications to the city's existing sewerage system include changes to the headworks and raw sewage pump stations. The grit and primary clarification facilities will be expanded. The existing oxidation ponds will be eliminated and complete mixed activated sludge and secondary clarification facilities added. Secondary sludge flotation thickener, new anaerobic digesters, and sludge drying beds will be added to replace the present inadequate solids handling facilities.

The land application system is being developed to dispose of canning and food processing wastewater. User industries will be required to maintain specified levels of screening and certain maximum levels for suspended solids and volume. The system consists of a pump station, force main, and land application area where the screened food processing wastewater will be applied during the canning and food processing season. The land application area, reserved exclusively for these wastes, will contain 600 acres. An additional area required to mitigate the effects of elimination of certain wetlands on the 600-acre site will be acquired. The wetlands/wildlife area will be approximately 400 acres.

Project Costs

Table 3 presents actual and estimated project costs for the various components of the project. The planning, design, and construction of the sewage treatment plant is estimated to cost \$12,089,050. This amount is based on actual costs incurred to date and a construction bid received from Continental Heller Corporation, Sacramento, California.

The bid received from Continental Heller Corporation is approximately 12% below the engineer's estimates. Continental Heller Corporation is ranked number 231 out of the top 400 general contractors nationwide by Engineering News Record based on dollar volume of construction. The corporation has served as general contractor for several wastewater treatment facilities in California. These include a \$3.2 million facility for the City of Davis completed in 1970 and a \$5.3 million facility completed in 1976 for the Oroville region. In addition Continental Heller Corporation is presently constructing a \$5.5 million plant for the County of Sacramento.

The principal subcontractor for the mechanical workings of the treatment plant is Monterey Mechanical Company, Oakland, California. This firm has completed the treatment components of sewage plants in the cities of Sacramento, San Jose and Stockton within the last several years. The price of construction for these facilities has ranged from \$1.9 to \$8.3 million.

Certain portions of the treatment plant are not eligible for federal financing; specifically, construction of capacity for future growth and various types of equipment. The non-grant eligible portion of \$1,075,900 is deducted from the total estimate before computing the remaining city share. The city share is 12.5% of the grant eligible project costs or \$2,452,500.

The total estimated cost for the land application system is \$4,793,050, which is principally based on the project engineer's estimate for construction of \$3,300,000. The total cost for the system includes a contingency allowance equal to 10% of the engineer's estimate. The non-grant eligible portion of the land application system is \$9,600. The city's share for the system is 12.5% of the grant eligible portion or \$607,500.

The city has adopted a resolution stipulating that no contract for construction will be awarded until a user agreement between the city and the principal user, Ragu', is signed which will guarantee repayment of debt incurred to construct the system.

The estimated cost for the treatment plant and the land application system is \$16,882,100 which includes a total local share of \$3,060,000.

Permit Approvals

The city has completed its Environmental Impact Report and has applied for all necessary permits to complete all portions of the project. All have been granted except the Corps of Engineers Section 404 permit pertaining to the land application system which is being processed at this time. Mitigation measures required by the Department of Fish and Wildlife have been accepted by the city. The city staff does not anticipate an adverse ruling by the Corps.

TABLE 3
TOTAL PROJECT COST AND CITY SHARE COMPUTATION

	<i>Treatment Plant</i>	<i>Land Application System</i>	<i>Total</i>
Stage I—Planning	\$ 237,100	\$ 59,300	\$ 296,400
Stage II—Design	\$ 742,300	\$ 417,500	\$ 1,159,800
Stage III—Construction			
Engineers estimate for facility	\$10,989,000 ^①	\$3,300,000 ^②	\$ 3,300,000
Construction bid for facility	\$ 9,798,000 ^③	\$ —	\$ 9,798,000
Land acquisition	—	413,000 ^④	413,000
Administration and engineering	821,750	273,250	1,095,000
Contingencies	489,900 ^⑤	330,000 ^⑥	819,900
Total Stage III	\$11,109,650 ^⑦	\$4,316,250	\$15,425,900
Total Project Cost	\$12,089,050 ^⑦	\$4,793,050	\$16,882,100
City Share ^⑧			
Non-grant Eligible	\$ 1,075,900 ^⑨	\$ 9,600 ^⑩	\$ 1,085,500
Local share ^⑪	1,376,600	597,900	1,974,500
Total City Share	\$ 2,452,500	\$ 607,500	\$ 3,060,000

① Included for information only. The engineers' estimate exceeded the low contractor's bid by 12.16%.

② The city will not award the contract for the completion of the land application system until the user agreement guaranteeing bond repayment has been signed.

③ Low bidder for the wastewater treatment plant is Continental Heller Corporation; major subcontractor for mechanical works construction is Monterey Mechanical Company.

④ Includes purchase of approximately 1,000 acres. The land disposal site consists of approximately 600 acres. The remainder will be used to mitigate the effect of wetlands utilization. The property has been appraised by R. W. Arnold & Associates, M. I. A., Merced, California.

⑤ Represents 5% of the bid amount for construction.

⑥ Represents 10% of the engineers' estimate for construction.

⑦ Includes the bid amount for construction and does not include the engineers' estimate.

⑧ The city's share consists of the non-grant eligible portions of the project and 12.5% of the remaining costs.

⑨ 8.9% of the treatment plant costs are non-grant eligible, with capacity for future growth representing the majority of the ineligible amount.

⑩ 0.2% of the land disposal system is non-grant eligible which includes equipment purchases for agricultural purposes to be used on the site.

⑪ Local share represents 12.5% of project cost after deducting non-grant eligible portion.

Source: City of Merced.

Project Engineers

The City engaged CH₂M Hill as project engineers to assist in the planning, design and construction of the facilities. CH₂M Hill originated in 1946 in Corvallis, Oregon and currently employs over 1,300 persons located in 21 domestic offices nationwide and three international offices. The firm was ranked thirteenth largest consulting engineering firm in the nation in 1976 by Engineering News Record based on gross billings. The 1977 billings of over \$50 million exceeded the 1976 billings by over 50%. The firm has extensive experience as project engineers on projects similar in scope and nature to the Merced system.

CH₂M Hill is serving as project engineers on a 13 mgd secondary treatment plant that will accommodate cannery wastes for the City of Turlock. The estimated project cost is \$13.5 million. The project is scheduled for completion in 1979. Another ongoing project includes a \$25 million 7.0 mgd secondary treatment facility being designed for Metropolitan Denver Sanitation District. Recently completed projects on which CH₂M Hill served as project engineers include a \$20 million sewage treatment facility for the Tahoe-Truckee Sanitation Agency and a \$25 million plant expansion and interceptor system constructed for the South Tahoe Public Utility District.

Bond Issue Requirement

Table 4 presents an accounting of the bond issue requirement. The city has contributed \$300,000 to the total local share of \$3,060,000 resulting in an unfunded obligation of \$2,760,000. The bond issue includes thirteen months' funded interest and an amount required to increase the bond reserve fund equal to one year's maximum annual debt service on all outstanding bonds. An allowance of \$120,658 interest to be earned during construction has been deducted from the total financial requirements resulting in a bond issue size of \$3,250,000.

TABLE 4
BOND ISSUE REQUIREMENT

PROJECT COSTS	
Treatment plant	\$2,452,500
Land disposal system	607,500
Total City Share	\$3,060,000
Less city cash contribution	300,000
Total Remaining City Share	\$2,760,000
FINANCING COSTS	
Funded interest (estimated at 7%)	\$ 256,458*
Bond reserve	234,200
Legal, financing, and incidentals	120,000
Total Financing Costs	\$ 610,658
Less interest earned during construction	\$ 120,658
Total Bond Issue Requirement	\$3,250,000

* Represents 13 months' interest.

Estimated Debt Service

Table 5 presents estimated annual debt service on the 1978 Sewer Revenue Bonds based upon an estimated net interest rate of 7%.

TABLE 5
ACTUAL AND ESTIMATED DEBT SERVICE ON CITY OF MERCED
1971 AND 1978 SEWER REVENUE BONDS

Year Ending May 1	1978 Sewer Revenue Bonds				
	Debt Service on 1971 Bonds	Principal Maturing May 1	Interest Estimated at 7%	Estimated Total Debt Service	Grand Total Debt Service
1978	\$ 41,046	\$ —	\$ 18,958*	\$ 18,958*	\$ 60,004
1979	77,085	10,000	227,500*	237,500	314,585
1980	79,635	10,000	226,800	236,800	316,435
1981	76,835	10,000	226,100	236,100	312,935
1982	79,035	10,000	225,400	235,400	314,435
1983	76,335	15,000	224,700	239,700	316,035
1984	78,815	15,000	223,650	238,650	317,465
1985	80,940	10,000	222,600	232,600	313,540
1986	77,695	15,000	221,900	236,900	314,595
1987	79,450	15,000	220,850	235,850	315,300
1988	80,850	15,000	219,800	234,800	315,650
1989	81,950	15,000	218,750	233,750	315,700
1990	82,750	15,000	217,700	232,700	315,450
1991	84,000	15,000	216,650	231,650	315,650
1992	—	100,000†	215,600	315,600	315,600
1993	—	105,000†	208,600	313,600	313,600
1994	—	115,000†	201,250	316,250	316,250
1995	—	125,000†	193,200	318,200	318,200
1996	—	130,000†	184,450	314,450	314,450
1997	—	140,000†	175,350	315,350	315,350
1998	—	150,000†	165,550	315,550	315,550
1999	—	160,000†	155,050	315,050	315,050
2000	—	170,000†	143,850	313,850	313,850
2001	—	185,000†	131,950	316,950	316,950
2002	—	195,000†	119,000	314,000	314,000
2003	—	210,000†	105,350	315,350	315,350
2004	—	225,000†	90,650	315,650	315,650
2005	—	240,000†	74,900	314,900	314,900
2006	—	260,000†	58,100	318,100	318,100
2007	—	275,000†	39,900	314,900	314,900
2008	—	295,000†	20,650	315,650	315,650
	\$1,076,421	\$3,250,000	\$5,194,758	\$8,444,758	\$9,521,179

* Funded from bond proceeds.

† Callable on or after May 1, 1991.

THE ENTERPRISE

The existing City of Merced sewage collection and treatment system was expanded in 1971 using proceeds of the 1971 Sewer Revenue Bonds, \$900,000 principal amount. Prior to the issuance of the bonds, the city council adopted Ordinance No. 951 on December 8, 1969 which established sewer use rates. The rate structure was designed to fairly spread the cost of sewer service over the users of the facilities.

In anticipation of issuing the 1978 Sewer Revenue Bonds, the city council adopted Ordinance No. 1209 on January 16, 1978, which revised the sewer rate structure.

Single family residential rates are set according to the assessed valuation of improvements on the property. The city staff has correlated the amount of wastewater requiring treatment to the cost of homes. The assessed valuation ranges and percentages of homes within ranges is set forth in Table 6. According to an inventory of residential customers completed by the city, applicable as of November 30, 1977, there are 7,366 single family dwelling unit hookups. The project engineers allowed a 6% growth rate in arriving at an estimated 8,276 single family residential unit users to be on-line during the first full year of operation of the modified plant in 1980/81.

The sewer service charge for multi-family residential units is \$3.60 per month for each residential unit. According to the city inventory applicable as of November 30, 1977, there are 461 duplexes, 132 triplexes, and 3,697 units in multi-plexes utilizing the system. Using a 6% growth rate, the city expects 5,635 units in multi-family complexes to be on line in 1980/81.

The sewer rate for mobile homes and trailer coaches is set at \$2.90 per month. Commercial, light industrial, and governmental agencies have the choice of having their rates based on volume of water consumed or volume of sewage discharged into the system. Schools are charged on a per student basis calculated on the previous years' average daily attendance. Heavy industrial users are charged based on the volume and strength (BOD and suspended solids) of their wastewater. The sewer service charges for all users of the system outside city limits is the same as for those within city limits.

The city contracts with the County of Merced for computerized billing of sewer service charges. These charges are sent out as part of a utility bill which includes refuse collection and water consumption charges. Charges for sewer service begin on the first day of the month following completion or occupancy of a building, and billing is bi-monthly thereafter. Service charges for sewer, water and refuse collection on the utility bill are inseparable which precludes payment for one service while withholding payment for others. Bills become delinquent on the twentieth day of the second month following the billing period. The city notifies the delinquent account fifteen days thereafter of the possibility of loss of water services. Continued delinquencies result in abatement of water service. Once water service has been terminated, all delinquent payments and a service fee are charged before water service is resumed.

Sewer Facilities Charges

Each property owner who connects to the city sewer system is required to pay a sewer facilities charge. A residential dwelling is charged \$200.00 for connection to the system. A charge of \$900.00 per acre is charged for connection of a commercial, industrial, professional, or other non-residential use. The sewer facilities charges will be revised to reflect the cost of the new facilities. CH₂M Hill estimates that the new charge for residential use will be approximately \$240 per connection; while the new industrial and commercial rate will be approximately one dollar per gallon per day of normal strength sewage capacity required. Pursuant to the ordinance, sewer facilities charges may only be used for capital additions to the sewer system or to pay bond service. Although revenue from this source is not pledged to Revenue Bonds, it may be used for debt service if the city so desires.

TABLE 6
SINGLE FAMILY RESIDENTIAL
UNIT SEWER RATES

Assessed Value of Improvements*	Percentage of Units per Category†	Monthly Sewer Charge*
Below \$2,999	20%	\$3.10
\$3,000 to \$ 5,999	49	4.10
\$6,000 to \$ 8,999	26	5.10
\$9,000 to \$11,999	4	6.10
Above \$12,000	1	7.10

* Source: City of Merced Ord. No. 1209.
† Percentage units in each category based on 1976/77 assessed values of improvements of property within the city. There were 7,366 single family dwelling units on the system as of November 30, 1977.

Historic Revenue and Expenses

Table 7 presents a five-year operating history of the sewer enterprise. During the period 1972/73 through 1976/77, operating revenue has exceeded operating expenses by an annual average of 2.92 times.

Since the issuance of the 1971 Sewer Revenue Bonds, net operating revenue available to meet debt service in any one year has exceeded actual debt service by at least 3.25 times.

Projected Revenue, Expenses, and Estimated Bond Coverage

Table 8 presents projected operating revenue and expenses and estimated debt service coverage for 1978/79 through the first full year of operation of the modified plant and land application system, 1980/81. The projections were developed by the project engineers, CH₂M Hill, based on the 1976 user records for commercial and light industrial customers and upon the city inventory of residential customers completed in November, 1977. A projected growth rate of 6% per year, consistent with historic growth rates, was used for residential users only. No increase in other users was anticipated by CH₂M Hill in projecting future revenue.

The city will not award a contract to construct the land application system until a user agreement with Ragu' has been signed. This agreement will guarantee sufficient revenue to meet debt service on that portion of the 1978 Sewer Revenue Bonds used to finance construction of the system.

The operating expenses were calculated by CH₂M Hill for 1980/81, the first full year of operation. Expenses for intermediate years were based on a "straight line" basis between the budgeted expenses for 1977/78 and the projected 1980/81 expenses. In the opinion of the city engineer, this approach renders the expenses for 1978/79 and 1979/80 higher than should actually occur.

The first thirteen months' interest is funded from bond proceeds which will enable use of additional operating revenue for capital improvements not directly related to the 1978 Bond project. Based upon the revenue projections and excluding funded interest, the coverage of estimated net operating revenue to actual debt service on the 1971 Sewer Revenue Bonds and estimated debt service on the 1978 Sewer Revenue Bonds in 1978/79 is 1.85 times.

TABLE 7
MERCED SEWER FUND OPERATING HISTORY

	1972/73	1973/74	1974/75	1975/76	1976/77	Adopted Budget 1977/78
Operating revenue						
Sewer service charges	\$364,968	\$437,437	\$481,492	\$554,377	\$599,800	\$570,000
Operating expenses						
Salaries and wages	\$ 66,252	\$ 66,174	\$105,591	\$ 66,203	\$109,081	\$167,820
Materials, supplies and services	41,737	60,348	69,609	88,490	138,291	151,745
Other charges	1,727	2,799	1,525	18,149	—	—
Total Operating Expenses	\$109,716	\$129,321	\$176,725	\$172,842	\$247,372	\$319,565
Net operating revenue available for debt service	\$255,252	\$308,116	\$304,767	\$381,535	\$352,428	\$250,435
1971 Sewer Revenue Bond debt service	\$ 78,635	\$ 76,885	\$ 75,135	\$ 78,385	\$ 76,285	\$ 74,185
Coverage of net revenues to debt service	3.25	4.01	4.06	4.87	4.62	3.38

Source: Financial statements prepared by the city for 1972/73, 1973/74 and 1974/75 examined by Olson, Olson and Brammer, Accountants and Auditors, Merced, California; financial statements prepared by the city for 1975/76 and 1976/77 examined by Wolf and Company, Certified Public Accountants, Fresno, California; and City of Merced adopted 1977/78 Budget. See the accompanying accountants' reports and notes to the financial statements for 1975/76 and 1976/77 in the Appendix to the Official Statement.

TABLE 8
PROJECTED SEWER SYSTEM REVENUE AND EXPENSES
AND ESTIMATED DEBT SERVICE COVERAGE

	1978/79	1979/80	1980/81
OPERATING REVENUES			
Treatment plant— industrial users ^①	\$ 141,000	\$ 175,000	\$ 175,000
Treatment plant— non-industrial users ^②	810,000	845,000	883,000
Land application system users ^③	115,000	239,000	239,000
Total Operating Revenue	\$1,066,000	\$1,259,000	\$1,297,000
OPERATING EXPENSES			
Treatment plant— operation and maintenance ^④	\$ 354,000	\$ 486,000	\$ 666,000
Treatment plant— general and administration ^④	29,000	35,000	41,000
Land application system— operation and maintenance	57,000	85,000	85,000
Land application system— general and administration	7,000	7,000	7,000
Total Operating Expenses	\$ 447,000	\$ 613,000	\$ 799,000
NON-OPERATING EXPENSES— DEBT SERVICE^⑤			
Debt service on 1971 Revenue Bonds	\$ 77,000	\$ 80,000	\$ 77,000
Estimated debt service— 1978 Revenue Bonds — treatment plant portion	206,000 ^⑥	190,000	189,000
Estimated debt service— 1978 Revenue Bonds — land application system portion ^⑦	51,000 ^⑥	47,000	47,000
Total Estimated Debt Service	\$ 334,000	\$ 317,000	\$ 313,000
Beginning fund balance	\$ —	\$ 285,000	\$ 614,000
Federal industrial cost recovery expenses ^⑧	—	—	(120,000)
Net operating revenue ^⑨	619,000	646,000	498,000
Estimated debt service	(334,000)	(317,000)	(313,000)
Coverage of annual net operating revenue to estimated annual debt service	1.85	2.04	1.59
Ending fund balance	\$ 285,000	\$ 614,000	\$ 679,000

① Based upon connected 1976 users. Does not include Ragu's food processing wastewater to be treated with the land application system nor Cal Can's industrial wastewater to be treated by independent privately-financed land application system. Revenue projections do not include any new connections.

② Includes domestic, commercial and light industrial users. Includes a 6% revenue increase per year for residential users only. Revenue projections based on 1976 user records for commercial and light industrial customers and based on city inventory of residential users as of November 30, 1977.

③ Includes charges necessary to cover operation and maintenance, debt service, Federal Industrial Cost Recovery (FICR), and city administrative expenses, no FICR for 1978/79, see note 8.

④ Operating expenses estimated by CH₂M Hill for first full year of operation, i.e., 1980/81. Expenses for 1978/79 and 1979/80 were calculated on a "straight-line" basis between budgeted 1977/78 and projected 1980/81.

⑤ Debt service on treatment plant and land application system based on estimated 7% interest.

⑥ Includes 13 months' interest to be funded from bond proceeds.

⑦ City will not award construction contract for land application system until user agreement is signed guaranteeing debt service payments.

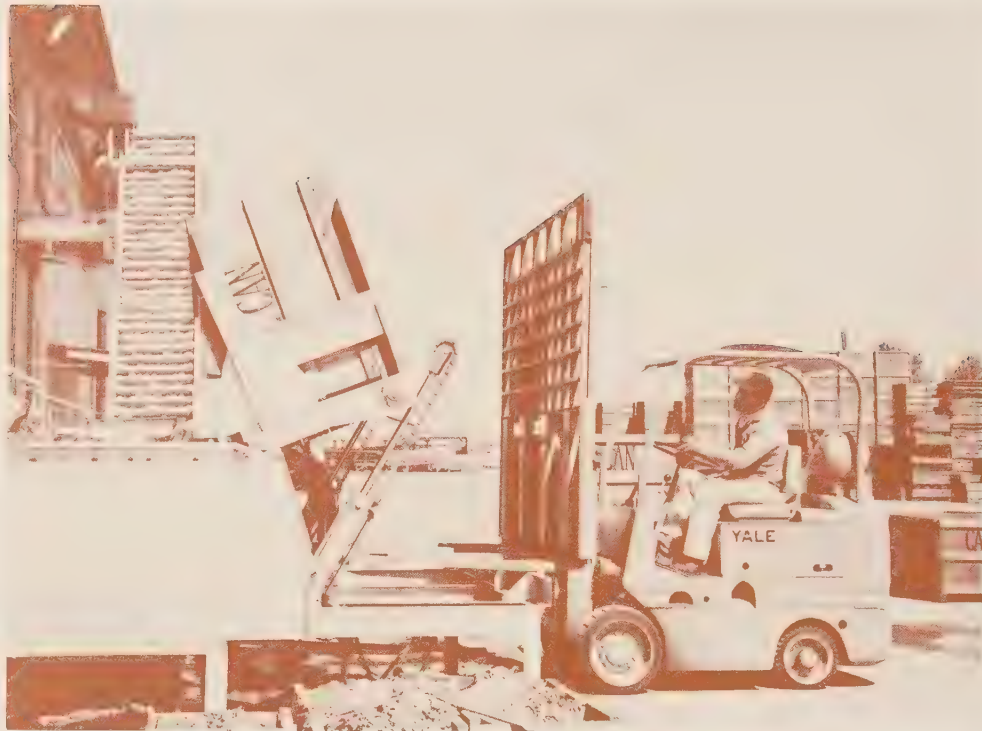
⑧ Federal guidelines require use of grant funds to finance portion of project dedicated to private industry to be repaid. The \$120,000 listed in 1980/81 represents that amount of industrial revenue received by the city and forwarded to the Federal Government as repayment of the federally funded portion. No repayment is listed for 1978/79 and 1979/80 due to a Federally-imposed moratorium on such repayment. The rate structure imposed by the city, however, includes \$100,000 industrial recovery charges for 1979/80 and 1980/81.

⑨ Available for debt service. City has covenanted to maintain rates and charges to produce annual net revenue equal to at least 1.35 times annual debt service.

Source: Revenue Program Report developed by the City of Merced and project planners and engineers, CH₂M Hill.

(Right) California Cannery and Growers, the city's largest employer, is spending over \$1,000,000 to develop its own sewerage system to dispose of canning wastes.

(Below) Ragu' Foods, Inc., which produces tomato base products, will be the primary user of the city's land application system which is being financed from bond proceeds.



CITY ORGANIZATION AND FINANCIAL DATA

The City of Merced was incorporated April 1, 1889. On April 12, 1949, the electorate approved establishment of a charter form of government, which became effective July 26, 1949.

The Merced City Charter provides for election of a city council composed of seven members elected at large for overlapping four-year terms. The mayor is selected by the city council from among its membership. The day-to-day municipal activities of the city are administered in accordance with policies of the city council by an appointed professional city manager who serves at the council's pleasure.

The city employs approximately 319 persons and provides a high level of municipal services to more than 31,700 citizens. The major services provided by the city include police and fire protection, waste collection, sewer service, water service, park and recreation, planning, building inspection, and street maintenance and lighting. The city also operates a municipal airport.

Assessed Valuation

The City of Merced utilizes the facilities of Merced County for the assessment and collection of taxes for city purposes. City taxes are assessed and collected at the same time and on the same tax rolls as are county, school, and special district taxes. Assessed valuations of properties are the same for both city and county taxing purposes. The State Board of Equalization reports that the 1977/78 Merced County assessed valuation averages 22.9% of market value while the public utility assessed valuation is reported by the State Board of Equalization to average 25% of market value.

The equalization process tends to assure that tax impacts will be uniform throughout the state. Maximum tax

rates in counties which assess above the 25% level are reduced by the percentage proportionate to the percentage of over-assessment. Conversely, counties that under-assess may adjust maximum tax rates to yield income based on a relationship of assessed valuation equal to 25% of full-market value. Rates below the statutory maximums are not affected by the equalization process.

The valuation of secured property is established as of March 1 of each year, is subsequently equalized in August, and the first installment of taxes becomes payable the following November. Taxes are due to be received by the Merced County Tax Collector on or before the delinquency dates of December 10 and April 10 for each installment of the taxes levied. Taxes on unsecured property (personal property and leaseholds) are due on August 31 of each year based on the preceding fiscal year's tax rate.

Under amendments adopted in 1968 to the Constitution and Statutes of the State of California, two types of exemptions of property from ad valorem taxes were authorized beginning in the fiscal year 1969/70. The first of these exempts 50% of the assessed valuation of business inventories from taxation. The second provides for exemption of \$1,750 of the assessed valuation of an owner-occupied dwelling for which application has been made to the county assessor. Revenue estimated to be lost to local taxing agencies due to such exemptions, however, is reimbursed from state sources. Such reimbursement is based upon total taxes due upon such exempt values and therefore is not reduced by any amount for estimated delinquencies.

Table 9 presents assessed values for the city for the past five years. During this period, assessed values in the city, including the increment available to the city's redevelopment agency, have increased nearly 80%. The assessed value that constitutes the revenue source for the city, exclusive of the redevelopment agency increment, has risen over 65% during the past five years. 1977/78 secured property values exceed unsecured property values by a ratio of approximately eight to one.

Market Value

Table 10 presents the breakdown of the 1977/78 secured, utility, and unsecured property assessed valuations for revenue purposes in the city. Since the county assesses property at 22.9% of market value, according to the State Board of Equalization, while utility property is assessed at 25% of market value, the estimated market value of property outside of the redevelopment projects in Merced is \$445,600,000. The estimated market value of property within the two redevelopment project areas is approximately \$38,500,000, based on a local secured and unsecured valuation of \$1,285,030. The estimated 1977/78 market value of all property within city limits is \$484,100,000.

TABLE 9
CITY OF MERCED ASSESSED VALUATIONS

<i>Fiscal Year</i>	<i>Secured*</i>	<i>Unsecured</i>	<i>Total Assessed Value for Revenue Purposes†</i>	<i>Redevelopment Agency Incremental Assessed Valuation‡</i>	<i>Total City Assessed Valuation</i>
1973/74	\$52,615,550	\$ 8,990,460	\$ 61,606,010	\$ 422,900	\$ 62,028,910
1974/75	64,509,640	9,478,500	73,988,140	437,710	74,425,850
1975/76	76,180,900	11,159,210	87,340,110	3,482,570	90,822,680
1976/77	83,299,530	10,672,460	93,971,990	6,517,940	100,489,930
1977/78	90,265,930	12,274,680	102,540,610	8,932,080	111,472,690

* Includes property assessed by State Board of Equalization.

† Before homeowners' and business inventory exemptions.

‡ Includes 15th Street Project Area and Project Area No. 2.

Source: Merced County Auditor-Controller.

TABLE 10
CITY OF MERCED 1977/78 ASSESSED VALUATION

	<i>City of Merced</i>	<i>Redevelopment Agency Incremental Assessed Valuation</i>	<i>Total</i>
Local secured	\$ 84,334,940	\$5,584,780	\$ 89,919,720
Utility	5,930,990	1,285,030	7,216,020
Unsecured	12,274,680	2,062,270	14,336,950
Assessed Value for Revenue Purposes	\$102,540,610	\$8,932,080	\$111,472,690

Source: Merced County Auditor-Controller.

Employee Retirement

Under the terms of the public employees' retirement system of California (P.E.R.S.), the city provides a retirement plan covering all full-time employees. According to P.E.R.S. the total city contribution to P.E.R.S. in 1976/77 was \$391,177. The city reports that \$241,291 was contributed by employees during the same period. The percentage of salary to be contributed in 1977/78 by the city will be 10.090% of payroll for miscellaneous employee categories and 14.318% of payroll for safety category employees. Safety category employees will contribute between 5.85% to 13.05% of their payroll to P.E.R.S. in 1977/78, depending on seniority. Employees in other categories will contribute 4.66% of the first \$400 of monthly salary and 7% of payroll thereafter in 1977/78.

P.E.R.S. is required by state law to undergo a systems evaluation at least every four years. Periodic intervening checks of actuarial assumptions and other aspects of the system are also made. The June 30, 1976 audit of P.E.R.S. by Coopers & Lybrand, certified public accountants, reported an accrued actuarial liability and present value of benefits for active and inactive members totalling approximately \$14.6 billion. Assets available for benefits were placed at about \$7.9 billion, leaving an unfunded liability of about \$6.7 billion.

Upon completion of the 1975 systemwide evaluation, actuaries then determined that restoration and maintenance of the system's necessary balances required a three-step annual increase of 1% in the average percentage employer contribution beginning July 1, 1976.

As of July 1, 1977, P.E.R.S. calculated that the city had a present value liability for all benefits for safety category employees of \$6,149,756 with cash and credited assets of \$4,656,880, leaving an unfunded liability of \$1,492,876. According to P.E.R.S., the city will amortize its unfunded liability for safety employees for current service and death benefits until the year 2000 and will amortize its unfunded liability for prior service obligations until the year 1982 at a current rate of 5.353% of payroll. These percentages are included in the percentage employer contributions for 1977/78 quoted above.

As of July 1, 1977, P.E.R.S. calculated that the city had a present value liability for prior service obligations for employees in miscellaneous categories of \$361,602 with cash and credited assets of \$126,587, leaving an unfunded liability of \$235,015. The city will amortize this obligation until the year 2000 at a current annual rate of .830% of payroll. This percentage is included in the percentage employer contributions for 1977/78 quoted above.

There are no separate assets and liabilities for current service and death benefits for miscellaneous employee categories in the city because P.E.R.S. combines assets and liabilities for all members in these categories in P.E.R.S. The contribution rate to fund future funded liability for these benefits is not available for the city, but will be determined as part of the July 1, 1977 actuarial valuation.

Ten Largest Taxpayers

Table 11 lists the ten largest taxpayers in the city. The largest taxpayer, Pacific Telephone Company, has a secured assessed value of \$3,807,060, or 4.2% of the locally secured assessed valuation (\$89,919,720) within city limits. The next four largest taxpayers constitute 4.0, 3.0, 2.8 and 1.3 percent, respectively, of the city's secured assessed valuation. As a group, the city's ten largest taxpayers make up less than 18% of the city's secured assessed valuation.

TABLE 11
CITY OF MERCED
TEN LARGEST TAXPAYERS

Name	Type of Business	1977/78 Secured Assessed Valuation
Pacific Telephone Company	Utility	\$ 3,807,060
Ragu'	Food processing	3,617,300
Cal-Can	Cannery	2,728,980
Pacific Gas & Electric	Utility	2,559,050
Goodyear Tire & Rubbber Company	Packaging film plant	1,138,940
Sears & Roebuck Company	Retail sales	700,060
Montgomery Wards	Retail sales	375,000
Codding Enterprises	Shopping center	279,250
Wainwright Enterprises	Subdividers-builders	256,140
Westgate Shopping Center	Retail sales	87,700
Total Secured Assessed Valuation		\$15,549,480

Source: City of Merced Finance Department

Property Tax Limitation Legislation

Efforts to limit property taxes are underway both in the California Legislature and through the initiative process. On March 2, 1978, the legislature passed and the Governor signed a bill called SB1 which would reduce homeowner property taxes 30 percent, replace lost local tax revenues with a state subvention, increase state income tax credits to renters, and impose restraints on local government spending. The bill is contingent on enabling constitutional amendments and would not be consistent with the provisions of the Jarvis Initiative on the same ballot. In addition, an initiative constitutional amendment, commonly called the "Jarvis Initiative," will be submitted to the voters at the June 6, 1978 statewide election.

The office of the Attorney General of the State of California has provided the following summary of the initiative:

"TAX LIMITATION—INITIATIVE CONSTITUTIONAL AMENDMENT. Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by the voters. Establishes 1975/76 assessed valuation base for property tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires $\frac{2}{3}$ vote of Legislature to enact change in state taxes designed to increase revenues. Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes imposition of special taxes by local government (except on real property) by $\frac{2}{3}$ vote of qualified electors. Financial impact: Commencing with fiscal year beginning July 1, 1978, would result in annual losses of local government property tax revenues (approximately \$7 billion in 1978/79 fiscal year), reduction in annual state costs (approximately \$600 million in 1978/79 fiscal year), and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds."

If approved by the voters, the initiative constitutional amendment will not affect the city's obligation to set rates and to collect sewer charges to pay the principal of and interest on the Bonds. However, the amendment, if approved, could have a significant adverse impact on the financial condition of the city, in that property tax revenue available to the city could be substantially reduced.

The city cannot predict whether this initiative constitutional amendment will be approved by the voters of the State of California, or, if approved, whether the validity of the initiative will be challenged in the courts, or, if so challenged, whether the initiative will be upheld, in whole or in part. Also, the city is unable to make any predictions as to whether additional sources of money would be made available by the California Legislature to the city if the initiative is approved and results in a reduction in property tax revenues available to the city.

The initiative does not set forth what law is to be used to apportion the one percent tax amount overlapping taxing jurisdictions, and no formula for such apportionment has been proposed. If approved, the initiative will have significant impact on the taxing powers of local government and, because of the lack of enabling legislation, will not permit an early assessment of the impact on any one agency.

Tax Rates, Levies & Delinquencies

Table 13 presents the city's tax rate for the past five years and the components of the 1977/78 city tax rate. The city tax rate has remained at \$1.86 for the past three years. The current tax rate allocates \$1.20 to the general fund, while nearly 20% of taxes levied are used for retirement contributions. Maximum tax rates permitted by the city charter are \$2.00 for the general fund, \$.10 for planning, and \$.20 for parks and recreation. The charter provides that the retirement fund shall be maintained to meet obligations without limit as to rate.

Table 14 presents a history of taxes levied, collected and amounts delinquent over the past five years. During this period, the city has experienced an average annual delinquency rate of 1.62%.

Table 12 presents the components of a representative tax rate, made up of the various rates of all taxing agencies within a tax code area. Tax Code Area 5-00 is the city's representative code area, consisting of over 63% of the city's assessed value for revenue purposes, exclusive of the redevelopment agency increment. The county accounts for nearly 30% of the total tax rate on all property, while various educational purposes make up over 50% of the total.

The Merced Irrigation District levies a \$6.50 tax per \$100 assessed valuation on land only. According to the district's general manager, the district assesses property at approximately 17-18% of full market value. Taxes are due by December 20 and June 20 in equal installments.

TABLE 12
REPRESENTATIVE 1977/78
TAX RATE
TAX CODE AREA 5-00*

<i>Taxing Entity</i>	<i>Tax Rate</i>
City of Merced	\$ 1.86
County of Merced	3.15
Elementary school district	2.69
High school district	1.93
Community college district	0.71
Other education	0.67
Vector control district	0.12
Cemetery district	0.09
Total Tax Rate On All Property	\$11.22

Irrigation district (land only) \$6.50†

* Tax Code Area 5-00 has a 1977/78 assessed valuation for revenue purposes of \$65,021-620 which represents 63% of the city's assessed value, exclusive of the redevelopment agency increment.

† Merced Irrigation District levies a \$6.50 tax per \$100 assessed valuation on land only. The district conducts its own assessment, which approximates 17-18% of full market value.

Source: Merced County Auditor-Controller; General Manager, Merced Irrigation District.

TABLE 13
CITY TAX RATES AND
1977/78 TAX RATE
COMPONENTS

TAX RATES	
<i>Fiscal Year</i>	<i>Tax Rate</i>
1973/74	\$ 1.80
1974/75	1.80
1975/76	1.86
1976/77	1.86
1977/78	1.86
1977/78 TAX RATE COMPONENTS	
<i>Fund</i>	<i>Tax Rate</i>
General	\$1.20
Planning	.10
Recreation and Parks	.20
Employee Retirement	.36
Total	\$1.86

Source: City of Merced Finance Officer.

TABLE 14
CITY OF MERCED
SECURED TAX LEVIES AND DELINQUENCIES

<i>Year Ending June 30</i>	<i>Secured Tax Levy</i>	<i>Amount Collected</i>	<i>Refunds and Adjustments</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
1973	\$ 830,633	\$ 811,823	\$ 5,598	\$13,212	1.59%
1974	813,641	793,106	6,531	14,004	1.72
1975	1,002,657	977,706	7,026	17,925	1.79
1976	1,274,121	1,185,463	66,953	21,705	1.70
1977	1,425,084	1,311,217	93,067	20,800	1.46

Source: Merced County Auditor-Controller.

City Revenue and Expenses

Table 15 presents a history of revenues and expenses for the city as reported on a cash basis. Figures in Table 15 are based on figures presented in the State Controller's reports presenting financial transactions of the city for 1972/73 through 1975/76; on figures presented in the city's report to the State Controller for 1976/77, and on figures presented in the city's adopted annual budget for 1977/78.

According to Table 15, the city's main source of tax income over the past five years has been sales and use taxes, which make up approximately one-quarter of total city revenues, followed closely by property tax income. General government expenditures made up nearly one-half of total city expenditures for 1976/77. According to the adopted budget, general government expenditures are expected to decrease nearly 10% during the current fiscal year, due to capital improvements funded in 1976/77 not expected in 1977/78.

Annual audits have been performed on the city's financial statements for 1972/73 through 1975/76. The financial statements accompanying the auditor's reports did not include a report of general fixed assets, which is being developed for inclusion in the 1978/79 financial statements. The auditors' opinions regarding the financial statements for 1972/73 through 1975/76 were qualified regarding the absence of this report. In addition, the auditors' report accompanying the 1975/76 financial statements did not include an opinion on the financial statements due to insufficient accounting records.

TABLE 15
CITY OF MERCED REVENUE AND EXPENDITURES*

	1972/73	1973/74	1974/75	1975/76	1976/77	Adopted 1977/78 Budget
REVENUE						
Property tax†	\$1,050,502	\$1,112,193	\$1,311,594	\$1,622,085	\$1,732,831	\$1,757,955
Sales and use tax‡	1,106,946	1,206,784	1,412,304	1,733,622	1,917,948	1,825,255
Transient lodging tax	53,758	59,721	68,012	81,074	94,873	85,000
Franchise tax	34,140	43,483	51,980	71,586	78,075	75,000
Business license tax	111,312	120,051	125,642	134,642	143,077	217,750
Property transfer tax	9,957	12,669	11,642	13,849	25,333	15,000
Other taxes	—	20,650	19,510	42,500	97,100	30,000
Licenses and permits	95,322	97,616	109,962	156,131	210,214	171,500
Fines and penalties	126,380	137,991	136,350	182,885	171,050	166,500
Use of money and property	130,861	272,069	361,992	390,394	291,798	113,750
Other agency income§	1,436,302	1,844,769	1,470,302	2,210,322	2,958,938	4,121,999
Current services¶	38,711	60,079	46,312	93,375	235,626	231,250
Other revenues¶	152,740	43,234	112,647	231,644	330,473	215,000
Total Revenue	\$4,346,931	\$5,031,309	\$5,238,249	\$6,964,109	\$8,287,336	\$9,025,959
EXPENDITURES						
General government	\$1,136,760	\$1,385,141	\$1,818,902	\$2,508,206	\$3,458,268	\$3,153,251
Public safety	1,464,471	1,697,246	1,888,385	2,083,515	2,137,816	2,284,186
Public works¶	969,796	823,514	725,598	946,264	862,115	804,982
Parks and recreation	471,211	640,773	741,693	603,569	618,004	638,524
Total Expenditures	\$4,042,238	\$4,546,674	\$5,174,578	\$6,141,554	\$7,076,203	\$6,880,943

* Table 15 verified by city's finance officer. Values in revenue and expense categories for 1972/73, 1973/74, 1974/75, 1976/77 and 1977/78 have been adjusted to allow comparison with audited 1975/76 financial statements.

† Includes state reimbursed income due to homeowners' and business inventory exemptions.

‡ Includes transportation tax.

§ Includes revenues derived from state gasoline taxes and Federal Revenue Sharing.

¶ Excludes revenue and expenses associated with the sewer service, water service and refuse service enterprise funds.

Sources: 1972/73, 1973/74, 1974/75 and 1975/76 Annual Reports of Financial Transactions Concerning Cities published by the State Controller; 1975/76 Financial Statements accompanying Auditors' Report dated December 23, 1976; 1976/77 Annual Report of Financial Transactions to State Controller, submitted by the city dated September 28, 1977; 1977/78 Adopted Annual Budget reformatted by City Finance Officer into Controller's Report format.

The city requested that the 1975/76 auditors prepare a management report to recommend methods to improve the accounting procedures of the city. A sequel to this report, requested by the city, dated March 8, 1978, identifies corrective measures taken by the city and areas requiring further attention. The city is continuing to implement procedures that will revise the financial reporting system as recommended by the auditors.

The city's 1976/77 financial statements are currently being audited. The city's finance officer does not anticipate the city receiving a qualified opinion for 1976/77 with the exception of the fixed assets report which is being developed to be included in the 1978/79 audit.

Direct and Overlapping Bonded Debt

Table 16 presents a statement of direct and estimated overlapping bonded debt for the city. The city's direct debt consists of \$4,936,512 principal amount outstanding 1915 Act Bonds. This city has a contingent liability regarding assessment bonds issued under the Improvement Bond Act of 1915, in the event of default in the payment of individual assessments.

TABLE 16
CITY OF MERCED
STATEMENT OF DIRECT AND ESTIMATED OVERLAPPING BONDED DEBT*

Estimated 1977 population	31,700
1977/78 assessed valuation	\$102,540,610†
Estimated market value	\$445,600,000‡

Entity	Percent Applicable	Debt Applicable April 10, 1978
Merced Union High School District	33.034 %	\$ 21,142
Merced City School District (1954-55 Issues)	76.911-77.082	30,806
Merced City School District (Subsequent Issues)	75.666	969,281
McSwain Union School District	2.655	2,655
Weaver School District	22.111	47,096
City of Merced 1915 Act Bonds§	100.000	4,936,512
Total Direct and Estimated Overlapping Bonded Debt		\$6,007,492

	Assessed Valuation	Ratio to Estimated Market Value	Per Capita
Assessed valuation	—	—	\$3,235
Direct bonded debt	4.81%	1.11%	156
Direct and overlapping bonded debt	5.86%	1.35%	190

State School Building Aid Repayable as of June 30, 1977:	\$1,157,463
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* Compiled by California Municipal Statistics, Incorporated.

† Before homeowners' and business inventory exemptions and after the redevelopment agency increment deduction (\$8,932,080).

‡ The State Board of Equalization reports that the 1977/78 Merced County assessed valuation averages 22.9% of market value with public utilities assessed at 25% of market value.

§ The city has a contingent liability regarding assessment bonds issued under the Improvement Bond Act of 1915 in the event of default in the payment of individual assessments.



(Above left) Control Data Corporation, which produces business forms, is illustrative of the diverse industrial base of the city.

(Above right) Cotton, the second largest field crop in Merced County, contributed nearly \$27,000,000 to the county's total agricultural production in 1976.

(Right) Historic County Courthouse is the focal point of the Merced County governmental center which is located in the city.



THE CITY AND VICINITY

The City of Merced is located in the northern portion of the San Joaquin Valley, approximately 135 miles southeast of San Francisco and 275 miles northwest of Los Angeles. The City, with an estimated 1977 population of 31,700, encompasses 9.5 square miles at an elevation of 169 feet above sea level. Merced is the largest city in Merced County and is the county seat.

The Merced area has warm, dry summers and mild winters. Temperatures range from a maximum of 100 degrees and an average of 80 degrees in summer months to a minimum of 28 degrees and an average of 64 degrees in winter. The area receives approximately 12 inches of rainfall annually.

Historically, the city's economy has been primarily based on agricultural production and directly and indirectly related industries. In recent years the city has broadened its economic base by attracting many non-agriculturally oriented industries. The city is the major trading and commercial center of the county.

Population Characteristics

Table 17 presents population growth trends for the city and county of Merced and the San Joaquin Valley. The valley is made up of ten counties including Fresno, Kern, Kings, Madera, Mariposa, Merced, San Joaquin, Stanislaus and Tulare. Merced County has grown more rapidly than any other county in the valley. The population in the county and city has more than doubled since 1950 and the valley has grown approximately 60% during the same period. The county's general plan projects a population of 52,000 for the city by 1990, an increase of 64%, compared to a 33% increase projected for the county.

According to copyright data presented in the 1977 Survey of Buying Power prepared by Sales and Marketing Management, the median age of county residents as of December, 1976, was 25.9 years compared to 29.5 years for state residents. The median effective buying income per household in the county for 1975 was \$11,573, compared to \$14,299 for the state.

TABLE 17
POPULATION STATISTICS

<i>Year</i>	<i>City of Merced</i>	<i>Merced County</i>	<i>San Joaquin Valley</i>
1950	15,278	69,780	1,140,735
1960	20,068	90,466	1,419,574
1970	22,670	104,629	1,632,916
1977	31,700	121,400	1,821,425
1990	52,000	160,900	n. a.

Source: 1950, 1960, 1970 figures from U. S. Census Bureau; 1977 figures estimated by California State Department of Finance; 1990 figures cited in Merced General Plan.

Employment and Economic Development

Economic development of the Merced area, historically dependent upon agriculturally oriented industries and augmented by a major military installation, has been expanded to include a diversity of light industrial manufacturers.

In 1977, agriculturally-related activities provide employment for nearly 35% of those working in the county, while the largest non-agricultural wage and salary industry was state and local government jobs with over 18% of those working. Table 18 presents a detailed accounting for employment by industry in the county. The civilian labor force has expanded at a slightly faster rate than the available job pool over the past five years as indicated by a rising unemployment rate. The State Economic Development Department expects the unemployment rate to decline to 9.6% in 1978.

The area's largest industrial employer is the local plant of California Cannery and Growers (Cal Can), with over 1,200 persons employed during the canning season. Cal Can was formed in 1958 and simultaneously took over Felice & Perrelli, the then operators of the canning plant in Merced. Since that time, Cal Can has grown to include seven canning plants located in Northern California and one plant in Wisconsin. The company packages about 12% of the fruit and vegetable produce in the nation, with total gross annual sales approximating \$230 million. Cal Can is the largest canning cooperative in the nation, with over 1,000 growers in California and Wisconsin who wholly-own the company.

The Merced plant is used to package peaches with a combined total of over 40,000 tons of Yellow Cling and Alberta peaches packaged annually. This currently represents about 30% of the company's peach volume. The company is transferring production from one of the other plants to the Merced location and anticipates plant expansion activities in the future. The land application system being financed by Cal Can to dispose of its wastewater will cost approximately \$1 million.

Ragu' Foods, Inc. is another employer of local significance, with over 350 persons employed during the food processing season. Ragu' is the principal industry to use the land application system being developed as a part of the project. Ragu', a division of Chesebrough-Ponds, Inc., located its tomato processing plant in Merced in 1972. The plant produces tomato paste, Italian cooking sauce, and spaghetti sauce. The company ranks number one in spaghetti sauce sales nationwide, with the Merced plant producing approximately 25% of the company's total. The principal production period is July through October during which the plant is operating on a 24-hour schedule.

TABLE 18
MERCED COUNTY WAGE AND SALARY EMPLOYMENT

Industry	1972	1976	1977
AGRICULTURAL WAGE AND SALARY			
Agricultural production	7,300	8,800	8,775
Agricultural services	1,575	1,850	2,025
Total Agriculture	8,875	10,650	10,800
NONAGRICULTURAL WAGE AND SALARY			
Construction and mining	1,100	1,075	1,225
Manufacturing — food processing	2,350	3,250	3,475
Manufacturing — other	1,175	1,700	1,850
Transportation and public utilities	1,375	1,800	1,900
Wholesale trade	1,075	1,850	1,950
Retail trade	4,975	5,950	6,200
Finance, insurance and real estate	1,250	1,500	1,525
Services	2,975	3,850	4,000
Government — federal	1,125	1,225	1,200
Government — state and local	6,750	7,725	7,800
Total Nonagricultural	24,150	29,925	31,125
Total Wage and Salary Employment	33,025	40,575	41,925
<hr/>			
Total civilian labor force	44,725	*	57,475
Total unemployment	3,775	*	6,925
Unemployment rate	8.4%	*	12.1%

* Computations not available based on new benchmark monthly period.
Source: California State Employment Development Department.

Table 19 shows that 15 of the 23 major industrial employers in the county are located in or nearby the city of Merced. The major employers continue to be agriculturally-related and are complemented by other light industries manufacturing a diverse range of products including paper goods, electrical supplies, hardware, home furnishings, and textiles.

The city and chamber of commerce will continue to encourage this diversification. Various factors enhancing the city's attractiveness as a manufacturing center include adequacy of utilities and water, access to all of the state's major market areas, excellent transportation facilities, available land at suitable prices, and an adequate labor force.

The city of Merced has over 1,400 acres zoned for light and heavy industry with approximately 70% available for lease or sale in parcel sizes ranging from 1 to 180 acres. Included in the acreage are three industrial parks. The Merced Airport Industrial Park was established in 1972 adjacent to the Merced Municipal Airport. The park is currently occupied by ten industries. Approximately 240 of the park's 360 acres are available for development in parcel sizes beginning at one acre.

Two other significant industrial parks are located adjacent to railroads. The Southern Pacific Industrial Park opened in April, 1977 with five tenants including Ragu' Industries. The park has an additional 146 acres available for development. The Santa Fe Industrial Park is scheduled for completion in December, 1978 and will ultimately provide 250 acres zoned for light industry.

Castle Air Force Base is located approximately seven miles from the city and is a major factor in the city's economy. The base employs approximately 300 civilian personnel and has a military component of 6,200 persons. The payroll for personnel stationed at the base was approximately \$66.5 million in 1977 and military purchases in the Merced area are estimated at over \$70 million annually. In addition to two tanker

training units and one tactical fighter unit stationed at Castle, a new operational tanker unit has recently been established resulting in a more diversified mission for the base. The base's information services office indicates that no major changes in staffing or operations at Castle are anticipated at this time.

TABLE 19
MERCED COUNTY MAJOR INDUSTRIAL EMPLOYERS, 1977

<i>Firm</i>	<i>Services or Products</i>	<i>Location</i>
Employee Range Over 1000		
California Cannery and Growers*	Fruits and vegetables	Merced
Employee Range 501-1000		
Davis Canning Company	Peaches and tomatoes	Atwater
Employee Range 101-500		
Avoset Food Corporation	Dairy products	Gustine
Ballico Fruit Company*	Fruit farming	Ballico
Bianchi and Sons Packing Company	Produce packing	Merced
Central California Tomato Growers*	Tomatoes	Merced
Control Data Corporation	Printed business forms	Merced
Del Monte Corporation*	Agriculture	Merced
Ferrero Electric, Inc.	Electrical supplies	Merced
Giampaoli and Marchini	Tomatoes and bell peppers	Le Grand
Keller Ladder Western Inc.	Aluminum ladders	Merced
Kendall Company	Health care products	Merced
Maracay Mill	Tufted carpets	Merced
Merced Sun Star	Newspaper publishers	Merced
Ragu' Foods, Inc.	Tomato sauces	Merced
Rheem Manufacturing	Shipping barrels	Merced
Robertson Factories, Inc.	Draperies	Merced
Rogers Brothers of California	Onions	Livingston
Santa Clara Packing Company	Fruit packers	Planada
Stribling Nurseries, Inc.	Nursery stock	Merced
Tubbs Cordage Company	Spun yarns	Dos Palos
Tuttle Farms, Inc.	Tomatoes	Merced
Wood Fruit Company, Inc.	Peaches	Atwater

* Seasonal peak.

Source: Merced City Chamber of Commerce.

Agriculture

The rich soil of the San Joaquin Valley and a mild year-round climate contribute to Merced's agriculturally-oriented economy. Nearly 40% of all land in the county is dedicated to agricultural production of over 90 commercial crops. The annual dollar volume of agricultural production in the county has nearly doubled during the last five years, as shown in Table 21. In 1976, livestock and poultry and their by-products constituted nearly 50% of the total production. Field crops made up the next largest category with over 26% of total production. Major crops include hay, cotton, almonds and sweet potatoes.

Commercial Activity

The City of Merced is the commercial and financial center for a large segment of the central valley region, and it is estimated that the city commercial areas serve a population in excess of 130,000. Several special improvement districts have been formed in accordance with the city's master plan to improve the city's commercial areas, and an active urban development program is now underway to upgrade much of the downtown area. Ample offstreet parking is provided by the city and a major street lighting program has been accomplished. Several shopping centers are located in the city limits, including the Westgate Shopping Center, College Green, and the Merced Mall. As a result of these facilities, sales tax revenues to the city have increased significantly.

According to the California State Board of Equalization, retail sales have increased nearly 64% during the last five years while total taxable transactions have nearly doubled during the same period. Table 20 shows that total taxable transactions in the City of Merced for 1976 totaled \$167,840,000, which represented nearly fifty percent of the total volume of taxable transactions in all of Merced County for the same twelve-month period.

TABLE 20
CITY OF MERCED
TAXABLE TRANSACTIONS AND SALES PERMITS

Year	Retail Sales	Total Taxable Transactions	Sales Permits
1972	\$ 89,777,000	\$102,430,000	658
1973	103,404,000	113,371,000	682
1974	115,279,000	129,854,000	695
1975	128,661,000	143,806,000	723
1976	146,848,000	167,840,000	732
Through third quarter, 1977	120,825,000	138,540,000	775

Source: California State Board of Equalization.

TABLE 21
DOLLAR VOLUME OF AGRICULTURAL PRODUCTION IN MERCED COUNTY

	1972	1973	1974	1975	1976
Field crops	\$ 61,909,200	\$ 78,936,600	\$112,474,600	\$101,968,000	\$123,160,800
Livestock and poultry	57,198,600	83,386,000	68,155,300	103,548,000	119,051,800
Livestock and poultry products	55,281,400	72,020,000	75,985,600	89,559,000	99,302,600
Fruit and nut crops	40,578,170	69,085,560	58,862,420	53,097,000	74,971,100
Vegetable crops	24,370,000	32,669,000	35,254,800	47,704,000	40,089,000
Nursery products	3,427,800	5,720,000	4,056,000	5,023,000	4,302,000
Seed crops	1,232,900	842,000	1,335,400	2,972,000	3,343,000
Apiary products	632,600	1,595,400	1,575,500	1,085,000	1,493,200
Total	\$244,630,670	\$344,254,560	\$357,699,620	\$404,956,000	\$465,713,500

Source: Merced County Department of Agriculture annual reports.

Building Activity

Table 23 presents a six-year summary of new construction valuations in the City of Merced. Total valuations have reached nearly \$100 million during this period averaging over \$16 million per year. Average annual residential valuation has outpaced corresponding commercial and industrial valuation by nearly three times. Although single family unit valuation consistently exceeds multi-family unit valuation, in 1977, 475 multi-family units were built compared to 331 single family units.

TABLE 22
CITY OF MERCED
TAXABLE TRANSACTIONS THROUGH THIRD QUARTER, 1977

<i>Type</i>	<i>Number of Permits</i>	<i>Taxable Transactions</i>
RETAIL STORES		
Apparel stores	39	\$ 6,059,000
General merchandise stores	19	20,559,000
Drug stores	10	6,805,000
Food stores	33	6,822,000
Packaged liquor stores	9	2,571,000
Eating and drinking establishments	94	12,459,000
Home furnishings and appliances	35	5,982,000
Building materials and farm implements	20	9,942,000
Auto dealers and auto suppliers	40	28,824,000
Service stations	44	13,041,000
Other retail stores	98	7,761,000
Total Retail Stores	441	\$120,825,000
All Other Outlets	334	\$ 17,715,000
Total	775	\$138,540,000

Source: State Board of Equalization, annual summaries of *Trade Outlets and Taxable Sales in California*.

TABLE 23
CITY OF MERCED
NEW CONSTRUCTION VALUATIONS

<i>Type of Construction</i>	<i>1972</i>	<i>1973</i>	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>
Single family	\$ 6,031,000	\$ 6,573,000	\$5,150,000	\$ 6,738,000	\$12,886,000	\$10,713,000
Multi-family	3,081,000	2,236,000	359,000	1,571,000	4,559,000	6,329,000
Other residential	749,000	881,000	913,000	1,108,000	1,124,000	1,186,000
Total Residential	\$ 9,861,000	\$ 9,690,000	\$6,422,000	\$ 9,417,000	\$18,569,000	\$18,228,000
Commercial	\$ 1,799,000	\$ 617,000	\$1,256,000	\$ 1,259,000	\$ 3,981,000	\$ 2,483,000
Industrial	766,000	1,274,000	475,000	350,000	810,000	371,000
Other commercial and industrial	971,000	1,370,000	1,158,000	2,585,000	3,548,000	979,000
Total Commercial and Industrial	\$ 3,536,000	\$ 3,261,000	\$2,889,000	\$ 4,194,000	\$ 8,339,000	\$ 3,833,000
Total Valuation	\$13,397,000	\$12,951,000	\$9,311,000	\$13,611,000	\$26,908,000	\$22,061,000
NUMBER OF DWELLING UNITS						
Single family	269	313	232	229	430	331
Multi-family	294	237	37	124	346	475
Total Dwelling Units	563	550	269	353	776	806

Source: Security Pacific National Bank, *California Construction Trends*.

Educational Facilities

The Merced area has educational facilities providing instruction through the second year of college. The Merced City School District operates one pre-school, eight elementary, and three junior high schools serving approximately 6,200 students. The Merced Union High School District has approximately 6,700 students attending three regular high schools and one continuation school. This district encompasses all of north-eastern Merced County with a total population of over 60,000 persons. The city also has two parochial elementary and one parochial high school.

Merced College is a public, tuition-free institution that provides a variety of education opportunities including transfer programs and vocational training. Since its opening in 1963, Merced College has grown in enrollment from approximately 500 students to over 7,000. The faculty is composed of 127 full-time day instructors and 163 part-time day and evening instructors.

Utilities

Electric power to the city is provided by the Pacific Gas and Electric Company from a variety of hydroelectric and steam generating plants. Natural gas is also provided by Pacific Gas and Electric Company from fields in Texas and New Mexico.

The city owns and operates its own water pumping and distribution system, which serves an estimated 35,000 customers located in and about the city. The city acquired the system in 1973 from Foremost-McKesson Property Company using proceeds of \$3,800,000 City of Merced 1973 Water Revenue Bonds. The city has covenanted to maintain rates at a sufficient level to yield annual net operating revenue to at least 1.25 times annual debt service. The water bill is a part of and due at the same time as the city's sewer and refuse charges.

The system utilizes groundwater solely as a water source. Since acquisition, one well has been added to the system bringing the total to 13 wells. Each well has an average pumping capacity ranging from 1,900 to 2,500 gallons per minute. In addition to 125 horsepower electrical pumps installed at 110 feet below the ground surface in each well, four of the wells are equipped with gas engine driven pumps for emergency service. During summer months, 7 to 8 pumps are used during peak hours while 3-4 are used during corresponding hours during winter months.

During 1977 the system produced approximately 4.5 billion gallons of water, or approximately 355 gallons per capita per day. The recent California drought had no measurable impact on the operation of the system. Production in 1977, however, was 16% below 1976 production due to voluntary customer water conservation practices.

Community Services

Police and fire protection are provided by the city. The police department is staffed by 70 full-time employees and augmented by 14 auxiliary reserves. The fire department is staffed with 52 full-time firemen and 3 reservists and equipped with 15 fire vehicles. The city has a class 3 fire insurance classification.

Library service in the city is provided by the Merced County library system. Nineteen branches are strategically located in the county offering a total of over 150,000 volumes. Three libraries are located in the city, including the main branch.

Residents in the Merced area have available two fully-equipped, acute-care hospitals with a combined bed capacity of 269. The hospitals are staffed by a total of 55 physicians. The city has five convalescent care facilities with a total of 419 beds.

Transportation

The City of Merced is traversed by Highway 99, a major north-south freeway; Highway 152, which provides access to the Monterey Peninsula; and Highway 140, which connects Merced to Yosemite National Park, located approximately 80 miles east of Merced. The city is approximately 45 minutes east of Interstate 5, the major north-south arterial for the West Coast. The city operates its own municipal airport which is served by United Airlines, offering daily service to San Francisco and Los Angeles. Chartered and private air facilities are also available at the airport.

Bus service is available from Greyhound and Continental Trailways, with transportation to Yosemite National Park provided by the Yosemite Transportation System. The city operates its own "dial-a-bus" system which is a demand responsive transit system available to all city residents. Ten buses with a carrying capacity of 12-14 persons each are available to transport residents to desired locations in the city for a 25 cent charge (reduced for children and senior citizens). In 1976/77 operating expenses were met with fare revenue and income apportioned by the state from gasoline sales taxes.

Rail service is provided by the Southern Pacific and Santa Fe Railroads, and overnight trucking is available to all major California cities.

Recreational Opportunities

The city offers ten parks and two municipal swimming pools to its residents. Lake Yosemite is located about nine miles from the city while spectacular Yosemite Valley is located about 80 miles east of Merced.

WOLF AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
OFFICES IN PRINCIPAL CITIES

Honorable Mayor, City Council
 and City Manager
 City of Merced, California

We have examined the statement of assets and liabilities arising from cash transactions of the City of Merced Sewer Utility Fund as of June 30, 1976, and the related statement of cash receipts and disbursements for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1, the City's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, certain revenue and the related assets are recognized when received rather than earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The City has not maintained historical cost records of its utility plant and equipment and the related depreciation thereon, as required by generally accepted accounting principles. We were unable to determine the difference between cost of the assets and the amount reported in the statement of assets, liabilities and fund balance. Therefore, we do not express an opinion on the statement of assets, liabilities and fund balance.

In our opinion the statement of cash receipts and disbursements referred to above present fairly the cash transactions of the City of Merced Utility Fund for the year ended June 30, 1976, on the basis of accounting described in Note 1, which basis has been applied in a manner consistent with that of the preceding year.

In connection with our examination we performed such tests and review of the City's compliance with the terms, covenants, provisions or conditions of Articles of Resolution No. 3733 of the City Council of the City of Merced as we considered necessary in the circumstances. Based on our study and tests, the City has complied with the Articles of Resolution No. 3733 during the year ended June 30, 1976.

Wolf and Company
 WOLF AND COMPANY
 Certified Public Accountants

Merced, California
 March 4, 1978

CITY OF MERCED
SEWER UTILITY FUND
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE
June 30, 1976

Assets	
Cash in city treasury	\$ 575,419
Restricted assets	
Deposit with fiscal agent (Note 2)	120,421
Utility plant in service (Notes 1 and 3)	
Structures, improvements and equipment	\$ -
Liabilities and Fund Balance	
Bonds payable (Note 3)	
Sewer expansion bonds	\$ 100,000
Revenue bonds	75,000
Bonds matured not redeemed	5,000
	\$80,000
Reserve for restricted assets	120,421
Fund balance	709,141
	\$ 1,405,981

See accompanying accountants report and notes to financial statements.

CITY OF MERCED
SEWER UTILITY FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended June 30, 1976

Operating revenue	
Sewer service charges	\$ 554,377
Operating expenditures	
Salaries	66,203
Materials, supplies and services	88,490
Other charges	1,446
Capital outlay	96
	156,135
Excess operating revenues over operating expenditures	\$40,174
Non-operating revenue	
Sewer correction fees	102,767
C.F.T.A. reimbursement	4,775
Interest earnings	5,438
	113,080
Non-operating expenditures	
Bond interest	54,687
Bond redemption	1,000,000
	1,054,687
Transfers to other funds	212,256
Excess of revenues over transfers and expenditures (Note 2)	\$ 110,175

CITY OF MERCED
SEWER UTILITY FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 1976

1. Summary of significant accounting policies

The City maintains its sewer utility fund records on the cash basis of accounting. Revenue is considered earned when received and expenditures are recorded when paid. Additions to utility plant in service are recognized as expenditures in the year in which they are paid for. As a matter of information the City is carrying its estimate of cost of utility plant in service on the balance sheet. The City does not maintain accounting records for such costs.

2. The City maintains cash sufficient to retire their current years revenue bond debt service obligation and all required reserves with its paying agent. The agent invests cash in excess of its current redemption requirements in short term investments. Funds with the fiscal agent as of June 30, 1976, were as follows:

Cash	\$ -
Short-term investments	\$ 120,421

3. The City has not maintained accounting records for the utility plant in service (see Note 1 above). The City is including an estimate of cost of utility plant in service on its statement of assets, liabilities and fund balance which is thought to be the best estimate of the utility plant costs.

4. Bonds payable

The long-term debt requirements and amounts maturing during the fiscal year for the City of Merced Sewer Utility System are as follows:

	Unmatured July 1, 1975	Maturing During Fiscal Year	Unmatured June 30, 1976
1957 Sewer expansion bonds, final principal maturing June 1, 1977, bearing 3-1/2% interest, payable bi-annually on June 1st and December 1st.	\$ 190,000	\$ 90,000	\$ 100,000
1971 Sewer revenue bonds, principal payments maturing annually on May 1, 1976 through 1991, ranging from \$30,000 to \$80,000, bearing interest from 5% to 7%, payable bi-annually on May 1st and November 1st.	805,000	30,000	775,000

The 1957 sewer bond issue as of June 30, 1976, had \$5,000 of matured bonds which had not been presented for redemption.

See accompanying accounts report and notes to financial statements.

APPENDIX B

WOLF AND COMPANY CERTIFIED PUBLIC ACCOUNTANTS OFFICES IN PRINCIPAL CITIES

CITY OF MERCED SEWER UTILITY FUND STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE June 30, 1977

Honorable Mayor, City Council
and City Manager
City of Merced, California

We have examined the statement of assets and liabilities arising from cash transactions of the City of Merced Sewer Utility Fund as of June 30, 1977, and the related statement of cash receipts and disbursements for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1, the City's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, certain revenue and the related assets are recognized when received rather than earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The City has not maintained historical cost records of its utility plant and equipment and the related depreciation thereon, as required by generally accepted accounting principles. We were unable to determine the difference between cost of the assets and the amount reported in the statement of assets, liabilities and fund balance. Therefore, we do not express an opinion on the statement of assets, liabilities and fund balance.

In our opinion the statement of cash receipts and disbursements referred to above presents fairly the cash transactions of the City of Merced Utility Fund for the year ended June 30, 1977, on the basis of accounting described in Note 1, which basis has been applied in a manner consistent with that of the preceding year.

In connection with our examination we performed such tests and review of the City's compliance with the terms, covenants, provisions or conditions of Articles of Resolution No. 3793 of the City Council of the City of Merced as we considered necessary in the circumstances. Based on our study and tests, the City has complied with the Articles of Resolution No. 3793 during the year ended June 30, 1977.

Wolf and Company
WOLF AND COMPANY
Certified Public Accountants

Merced, California
March 4, 1978

Assets	
Cash in city treasury	\$ 845,779
Restricted assets	
Deposit with fiscal agent (Note 2)	126,117
Utility plant in service (Note 1 and 3)	
Structures, improvements and equipment	1,868,296
Construction in progress	1,119,119
	<u>\$ 3,959,211</u>
Liabilities and Fund Balance	
Bonds payable (Note 4)	
Revenue bonds payable	\$ 745,000
Bonds matured, not redeemed	9,000
	<u>754,000</u>
Reserve for restricted assets (Note 2)	126,117
Fund balance	<u>2,133,574</u>
	<u>\$ 3,959,211</u>

See accompanying accountants report and notes to financial statements.

CITY OF MERCED SEWER UTILITY FUND STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS For the Year Ended June 30, 1977

Operating revenue	
Sewer service charges	\$ 599,800
Maintenance and repair charges	486
Other charges	142
	<u>600,428</u>
Operating expenditures	
Salaries	109,081
Materials, supplies and services	138,291
Capital outlays	34,973
	<u>282,345</u>
Excess operating revenues over operating expenditures	318,083
Non operating revenues	
C.F.T.A.	12,580
Sewer connection fees	126,671
Clean water grant	200,800
Interest earnings	5,696
	<u>345,647</u>
Non operating expenditures	
Construction work in progress	173,499
Bond interest and redemption	174,226
	<u>347,725</u>
Excess of revenues over expenditures	<u>\$ 216,005</u>

CITY OF MERCED SEWER UTILITY FUND NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 1977

1. Summary of significant accounting policies.

The City maintains its sewer utility fund records on the cash basis of accounting. Revenue is considered earned when received and expenditures are recorded when paid. Additions to utility plant in service are recognized as expenditures in the year in which they are paid. As a matter of information the City is carrying its estimate of cost of utility plant in service on the balance sheet. The City does not maintain records accounting for such costs.

2. The City maintains cash sufficient to retire their current years revenue bond debt service obligation and required reserves with its paying agent. The agent invests cash in excess of its current redemption requirements in short term investments. Funds with the fiscal agent as of June 30, 1977, were as follows:

Cash	\$ -0-
Short-term investments	126,117
	<u>\$ 126,117</u>

3. The City has not maintained accounting records for the utility plant in service. (See Note 1 above). The City is including an estimate of cost of utility plant in service on its statement of assets, liabilities and fund balance. The City made an adjustment of \$781,166 to increase the utility plant in service balance to reflect amounts carried as cost on their annual report to the State Controllers Office. This report balance is thought by the City to be the best estimate of the utility plant cost.

4. Bonds payable

The long-term debt requirements and amounts maturing during the fiscal year for the City of Merced Sewer Utility System are as follows:

	Unmatured July 1, 1976	Maturing During Fiscal Year	Unmatured June 30, 1977
1957			
Sewer expansion bonds, final principal maturing June 1, 1977, bearing 3-1/2% interest, payable bi-annually on June 1st and December 1st.	\$ 100,00	\$ 100,00	\$ 0
1971			
Sewer revenue bonds, principal payments maturing annually on May 1, 1976 through 1991, ranging from \$30,000 to \$80,000, bearing interest from 5% to 7%, payable bi-annually on May 1st and November 1st.	775,000	30,000	745,000

The 1957 sewer bond issue matured in 1977. As of June 30, 1977, \$9,000 of the matured bonds had not been presented for redemption.

See accompanying accountants report and notes to financial statements.

CITY COUNCIL
of the
CITY OF MERCED

Resolution No. 78-25

Providing for the Issuance of
\$3,250,000 Principal Amount of
City of Merced
1978 Sewer Revenue Bonds
(Supplemental to Resolution No. 3733
Adopted April 5, 1971)

Adopted March 20, 1978

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RESOLUTION NO. 78-25

**Resolution Providing for the Issuance of \$3,250,000 Principal
Amount of City of Merced 1978 Sewer Revenue Bonds,
and Prescribing the Terms and Conditions and Form of Said Bonds
(Supplemental to Resolution No. 3733 Adopted April 5, 1971)**

WHEREAS, the City Council of the City of Merced, a chartered city and municipal corporation duly organized and existing under the Constitution and laws of the State of California, on April 5, 1971 duly adopted its Resolution No. 3733 entitled "Resolution Providing for the Issuance of \$900,000 Principal Amount of City of Merced 1971 Sewer Revenue Bonds, and Prescribing the Terms and Conditions and Form of Said Bonds" (herein called the "Resolution");

WHEREAS, the City has heretofore duly issued and sold \$900,000 principal amount of 1971 Sewer Revenue Bonds pursuant to the Resolution (which Bonds are herein called the "1971 Sewer Revenue Bonds");

WHEREAS, Section 3.03 of the Resolution provides that the City may issue and sell additional sewer revenue bonds on a parity with the 1971 Sewer Revenue Bonds, subject to the terms and conditions set forth in the Resolution;

WHEREAS, the City Council of the City has heretofore found and determined that the public interest and necessity require that the City issue an additional \$3,250,000 principal amount of sewer revenue bonds in the time, form and manner and for the purpose hereinafter in this supplemental resolution specified;

WHEREAS, the City Council of the City has heretofore found and determined that each and all of the conditions set forth in said Section 3.03 have been or will be duly satisfied in accordance with law, and accordingly that the City is now duly authorized to issue said additional sewer revenue bonds in the time, form and manner provided in this supplemental resolution for the purpose set forth herein; and

WHEREAS, the public interest and necessity demand the issuance of such additional sewer revenue bonds for the purpose set forth herein;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Merced as follows:

SECTION 1. *Authorization and Purpose of Issue.*

(a) The foregoing recitals are, and each of them is, true and correct and the Council so finds and determines.

(b) The Council hereby determines to authorize an issue of additional sewer revenue bonds in the aggregate principal amount of \$3,250,000 in accordance with Ordinance No. 1007, as amended by Ordinance No. 1214, adopted by the Council (herein called the "Ordinance"), and in accordance with the Revenue Bond Law of 1941, but without an election, as provided in the Ordinance. In all other respects (except the requirement of an election) the Revenue Bond Law of 1941, as now in effect, is incorporated herein and made a part hereof.

(c) The Council has reviewed all proceedings heretofore taken relative to the authorization of said additional sewer revenue bonds and has found, as a result of such review, and hereby finds and determines that all conditions, things and acts required by law to exist, happen or be performed precedent to and in the issuance of said additional sewer revenue bonds do exist, have happened and have been performed in due time, form and manner as required by law, by the Charter and by the Ordinance, and the City is now authorized, pursuant to each and every requirement of law, the Charter and the Ordinance, to issue said additional sewer revenue bonds in the time, form and manner provided in this supplemental resolution.

(d) Said additional sewer revenue bonds shall issue for the purpose of providing funds for the acquisition and construction of improvements to the municipal sewer system of the City, including expansion of existing treatment and disposal facilities and construction of a canning wastewater disposal system, together with necessary lands, easements and rights in lands therefor, and other works, properties or structures necessary or convenient for the improvement of said municipal sewer system.

(e) It is hereby found and determined that the City now owns and operates a municipal sewer system; that said system is in need of the improvements set forth in subsection (d) above; that said improvements will constitute additions, betterments, improvements and extensions of said system and integral parts thereof; that the revenues from said system are and shall be pledged to the payment of the outstanding 1971 Sewer Revenue Bonds and said additional sewer revenue bonds, and all revenues now or hereafter derived from said system are legally available for the payment of the outstanding 1971 Sewer Revenue Bonds and said additional sewer revenue bonds; that said system when improved as described in subsection (d) above will constitute a complete sewer system for the City; that the acquisition and construction of said improvements can be financed from the proceeds of sale of said additional sewer revenue bonds; and that the proceeds of sale of said additional sewer revenue bonds shall be applied to the payment of the costs of the acquisition and construction of said improvements. Accordingly, it is found and determined as follows: (1) said improvements can be completed from the funds available and to be available to the City from the proceeds of sale of said additional sewer revenue bonds; (2) sewer service charges have heretofore been and can be fixed, levied and collected upon the Enterprise for the services and facilities furnished by the Enterprise; (3) said sewer service charges shall constitute the revenues of the Enterprise pledged to the payment of the principal of and interest on the 1971 Sewer Revenue Bonds and said additional sewer revenue bonds and to the security of the 1971 Sewer Revenue Bonds and said additional sewer revenue bonds as herein provided; and (4) the Revenues of the Enterprise are hereby pledged to the service of the 1971 Sewer Revenue Bonds and said additional sewer revenue bonds herein authorized to be issued. It is further found and determined that said additional sewer revenue bonds constitute Additional Bonds, as that term is defined in the Resolution, and said additional sewer revenue bonds shall be payable from the Revenues of the Enterprise and shall be secured by a lien and charge upon the Revenues of the Enterprise equal to the lien and charge securing the 1971 Sewer Revenue Bonds.

SECTION 2. *The 1978 Bonds.* Said additional sewer revenue bonds are hereby authorized to be issued by the City under and subject to the terms of the Resolution and this supplemental resolution, and they shall be issued and sold as hereinafter set forth and pursuant to the Ordinance. Said additional sewer revenue bonds shall be \$3,250,000 in aggregate principal amount and shall be known as the "City of Merced 1978 Sewer Revenue Bonds" (herein called the "1978 Bonds"). The 1978 Bonds shall be dated April 1, 1978, shall be coupon bonds in the denomination of five thousand dollars (\$5,000) each, shall be numbered 1 to 650, both inclusive, and shall mature in consecutive numerical order from lower to higher, as set forth in the following schedule:

Maturity Date (May 1)	Principal Amount	Maturity Date (May 1)	Principal Amount
1979.....	\$ 10,000	1994.....	\$115,000
1980.....	10,000	1995.....	125,000
1981.....	10,000	1996.....	130,000
1982.....	10,000	1997.....	140,000
1983.....	15,000	1998.....	150,000
1984.....	15,000	1999.....	160,000
1985.....	10,000	2000.....	170,000
1986.....	15,000	2001.....	185,000
1987.....	15,000	2002.....	195,000
1988.....	15,000	2003.....	210,000
1989.....	15,000	2004.....	225,000
1990.....	15,000	2005.....	240,000
1991.....	15,000	2006.....	260,000
1992.....	100,000	2007.....	275,000
1993.....	105,000	2008.....	295,000

The 1978 Bonds shall bear interest at such rate or rates, not exceeding eight per cent (8%) per annum, as may be fixed by the Council at the time of sale of the 1978 Bonds. Such interest shall be payable on November 1, 1978 and thereafter semiannually on May 1 and November 1 in each year. The interest coupons attached to the

1978 Bonds shall be numbered in consecutive numerical order, and each such coupon shall represent six months' interest on the 1978 Bond to which it is attached, except the first such coupon which shall represent seven months' interest on the 1978 Bond to which it is attached. Both the principal of and interest on the 1978 Bonds shall be payable at the principal office of the Fiscal Agent in San Francisco, California, or at the office of any Paying Agent, in lawful money of the United States of America.

SECTION 3. *Redemption of 1978 Bonds.*

(a) 1978 Bonds numbered 1 to 34, both inclusive, maturing on or before May 1, 1991, are not subject to redemption prior to their respective maturity dates. 1978 Bonds numbered 35 to 650, both inclusive, maturing on or after May 1, 1992, are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part in inverse order of maturity and by lot within any one maturity, from funds derived by the City from any source, on any interest payment date on or after May 1, 1991, at the principal amount thereof and accrued interest to date of redemption, plus a premium of one-quarter of one per cent ($\frac{1}{4}$ of 1%) of the principal amount thereof for each whole year and for the fraction of a year, if any, remaining from the date fixed for redemption to the stated maturity date of the 1978 Bonds so redeemed. Whenever funds are available for the call and redemption of any of the 1978 Bonds then subject to call and redemption, the Fiscal Agent shall determine the serial numbers of the 1978 Bonds to be redeemed and the date of redemption of such 1978 Bonds. Whenever less than all of the 1978 Bonds of any one maturity are to be called and redeemed on any one date, the Fiscal Agent shall select the 1978 Bonds to be called and redeemed on such date by lot in any manner that it deems fair.

(b) The Fiscal Agent shall cause notice of any redemption to be published once a week for two successive weeks (the first publication to be not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption) in a financial newspaper or journal, printed in the English language, of general circulation in San Francisco, California or in New York, New York. Such notice shall state the redemption date and the redemption price and shall designate the serial numbers of the 1978 Bonds to be redeemed by giving the individual number of each 1978 Bond or by stating that all 1978 Bonds between two stated numbers, both inclusive, have been called for redemption, and shall require that such 1978 Bonds be then surrendered with all interest coupons maturing on and subsequent to the redemption date at the office of the Fiscal Agent for redemption at the said redemption price, giving notice also that further interest on such 1978 Bonds will not accrue after the redemption date.

A similar notice shall be mailed by the Fiscal Agent to the respective registered owners of any 1978 Bonds designated for redemption at their addresses appearing on the bond registration books in the office of the Fiscal Agent, and to the original purchaser of the 1978 Bonds, or if the original purchaser is a syndicate, to the manager or managers of such syndicate, at least thirty (30) but not more than sixty (60) days prior to the redemption date, but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such 1978 Bonds.

Such notice of redemption shall be so published and mailed by the Fiscal Agent at the written request of the City (which request shall be given to the Fiscal Agent at least forty-five (45) days prior to the date fixed for redemption), but only after the City shall have deposited with or otherwise made available to the Fiscal Agent the moneys required for payment of the redemption price of all 1978 Bonds then to be called for redemption, together with the estimated expense of giving such notice.

After the date fixed for redemption, if notice of such redemption shall have been duly published and funds available for the payment of the principal of and interest and redemption premiums on the 1978 Bonds so called for redemption shall have been duly provided, such 1978 Bonds so called shall cease to be entitled to any benefit under this supplemental resolution other than the right to receive payment of the redemption price, and no interest shall accrue thereon after the redemption date specified in such notice.

All 1978 Bonds redeemed pursuant to the provisions of this section and the appurtenant coupons, if any, and all 1978 Bonds purchased by the Fiscal Agent pursuant to Section 4.03(5)(c) of the Resolution and the appurtenant coupons, if any, shall be cancelled by the Fiscal Agent and a certificate of such cancellation shall be delivered by the Fiscal Agent to the City.

SECTION 4. *Form of 1978 Bonds.* The 1978 Bonds, the interest coupons to be attached thereto and the form of registration endorsement to appear thereon shall be substantially in the following forms, respectively:

[FORM OF BOND]

No. _____

\$5,000

UNITED STATES OF AMERICA
 STATE OF CALIFORNIA
 COUNTY OF MERCED
 CITY OF MERCED
 1978 SEWER REVENUE BOND

The CITY OF MERCED, a chartered city and municipal corporation organized and existing under the Constitution and laws of the State of California (the "City"), for value received hereby promises to pay (but only out of the Revenues hereinafter referred to) to the bearer hereof, or, if this Bond be registered, to the registered owner hereof, on May 1, ____ (subject to any right of prior redemption hereinafter provided for) the principal sum of Five Thousand Dollars (\$5,000), together with interest thereon from the date hereof until the principal hereof shall have been paid, at the rate of _____ per cent (___%) per annum, payable on November 1, 1978 and thereafter semiannually on May 1 and November 1 in each year. Interest due on or before the maturity of this Bond shall be payable only according to the tenor, and upon presentation and surrender, of the annexed interest coupons as they severally become due. Both the principal hereof and interest hereon are payable at the principal office of Bank of America National Trust and Savings Association, the Fiscal Agent of the City, in San Francisco, California, in lawful money of the United States of America.

This Bond is one of a duly authorized issue of revenue bonds of the City (the "Bonds") limited in aggregate principal amount to Three Million Two Hundred Fifty Thousand Dollars (\$3,250,000), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions), all issued and to be issued pursuant to the Constitution and laws of the State of California, and the Charter of the City and Ordinance No. 1007, as amended by Ordinance No. 1214, of the City (the "Ordinance"), incorporating the provisions of the Revenue Bond Law of 1941 (the "Law"), except for the requirement of an election, and pursuant to Resolution No. 3733 adopted by the City Council of the City on April 5, 1971 and Resolution No. 78-25 adopted by the City Council of the City on March 20, 1978 (the "Resolutions"). Reference is hereby made to the Resolutions, to any resolutions supplemental thereto, to the Ordinance and to the Law for a description of the terms on which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Revenues, as that term is defined in the Resolutions, and the rights of the holders and registered owners of the Bonds and of the bearers of the appurtenant coupons; and all the terms of the Resolutions, the Ordinance and the Law are hereby incorporated herein and constituted a contract between the City and the holder or registered owner from time to time of this Bond, and to all the provisions thereof the holder or registered owner of this Bond, by his acceptance hereof, consents and agrees. Each taker and subsequent holder hereof and of said coupons, whether said coupons are attached hereto or detached herefrom, shall have recourse to all of the provisions of the Law, the Ordinance and the Resolutions and shall be bound by all of the terms and conditions thereof.

The Bonds are issued to provide funds for the acquisition and construction of improvements to an Enterprise, consisting of the municipal sewer system of the City, as more particularly described in the Resolutions. The Bonds are special obligations of the City and are payable, as to the principal thereof, interest thereon and any premiums upon the redemption of any thereof, from the gross revenues of said Enterprise (which, as more particularly defined in the Resolutions, are therein and herein called the "Revenues"). All of the Bonds and all of the City of Merced 1971 Sewer Revenue Bonds (herein called the "1971 Bonds") are equally secured by a pledge of, and charge and lien upon, all of the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of the Bonds and the 1971 Bonds. Additional sewer revenue bonds payable from the

Revenues may be issued on a parity with the Bonds of this authorized issue and the 1971 Bonds, but only subject to the conditions and limitations contained in the Resolutions.

The principal of and interest on this Bond are payable solely from the Revenues, and the City is not obligated to pay it except from the Revenues. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Bonds or their interest. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the Revenues.

The City covenants that, so long as any of the Bonds are outstanding, it will fix, prescribe and collect rates, fees and charges in connection with the services and facilities furnished by the Enterprise so as to yield Revenues at least equal to the amounts thereof prescribed by the Resolutions and sufficient to pay the principal of and interest on the Bonds in accordance with the provisions of the Resolutions.

Bonds numbered 1 to 34, both inclusive, maturing on or before May 1, 1991, are not subject to redemption prior to their respective maturity dates. Bonds numbered 35 to 650, both inclusive, maturing on or after May 1, 1992, are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part in inverse order of maturity and by lot within any one maturity, from funds derived by the City from any source, on any interest payment date on or after May 1, 1991, at the principal amount thereof and accrued interest to date of redemption, plus a premium of one-quarter of one per cent ($\frac{1}{4}$ of 1%) of the principal amount thereof for each whole year and for the fraction of a year, if any, remaining from the date fixed for redemption to the stated maturity date of the Bonds so redeemed.

As provided in the Resolutions, notice of redemption shall be given by publication once a week for two successive weeks in a financial newspaper or journal, printed in the English language, of general circulation in San Francisco, California or in New York, New York, with the first such publication to be not less than thirty (30) days nor more than sixty (60) days before the redemption date, all in the manner and upon the terms and conditions set forth in the Resolutions. In addition, notice of redemption of this Bond, if registered as to interest and principal, shall be mailed not less than thirty (30) days nor more than sixty (60) days before the redemption date to the registered owner hereof, but neither failure to mail or receive such notice shall affect the sufficiency of such proceedings for redemption. If notice of redemption has been duly given as aforesaid, and moneys for payment of the redemption price are held by the Fiscal Agent, then this Bond shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice; and from and after the date so designated interest on this Bond shall cease to accrue, the coupons for interest thereon maturing subsequent to the redemption date shall be void and the holder or registered owner of this Bond shall have no rights in respect thereof except to receive payment of the redemption price thereof.

This Bond is negotiable and transferable by delivery unless registered as to principal and interest in the name of the holder in the manner provided in the Resolutions and thereafter the principal hereof and interest hereon shall be payable only to the registered owner.

The rights and obligations of the City and of the holders and registered owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Resolutions, but no such modification or amendment shall (1) extend the maturity of this Bond, or reduce the interest rate hereon, or otherwise alter or impair the obligation of the City to pay the principal hereof, or interest hereon, or any premium payable on the redemption hereof, at the time and place and at the rate and in the currency provided herein, without the express consent of the holder or registered owner of this Bond or (2) reduce the percentage of Bonds required for the written consent to an amendment or modification; all as more fully set forth in the Resolutions.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit prescribed by the Constitution or laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Resolutions.

Finance Officer of the City of Merced

(Seal)

Coupon No. _____

The City of Merced on _____ 1, _____,
(subject to any right of prior redemption reserved in the Bond herein mentioned) will pay to bearer (unless said Bond is registered) exclusively from the Revenues referred to in said Bond, at the principal office of Bank of America National Trust and Savings Association in San Francisco, California, upon surrender hereof, the sum shown hereon in lawful money of the \$ _____ United States of America, being interest then due on its 1978 Sewer Revenue Bond, dated April 1, 1978, No. _____

[FORM OF REGISTRATION ENDORSEMENT]

This Bond is registered in the name of the registered owner whose name and address appear last in the space below and both the principal of and interest on this Bond are payable to such registered owner.

Note: There must be no writing in the space below except by the Fiscal Agent.

[illegible]

SECTION 5. *Execution of 1978 Bonds.* The Mayor and the Finance Officer are hereby authorized and directed to sign each of the 1978 Bonds on behalf of the City and the Clerk is hereby authorized and directed to countersign each of the 1978 Bonds and to impress or imprint by facsimile the official seal of the City thereon. The signatures of the Mayor and the Finance Officer may be printed, lithographed or engraved facsimile signatures, but the Clerk shall manually countersign each 1978 Bond. The Finance Officer is hereby authorized and directed to sign each of the interest coupons by printed, lithographed or engraved facsimile signature. In case any such officer whose signature or countersignature appears on the 1978 Bonds or coupons shall cease to be such officer before the delivery of such 1978 Bonds to the purchaser, such signature or countersignature shall nevertheless be valid and sufficient for all purposes the same as though he had remained in office until the delivery of the 1978 Bonds.

SECTION 6. *Transfer of 1978 Bonds.* As provided by the Law, all coupon 1978 Bonds shall be negotiable instruments transferable by delivery, unless registered as to principal and interest in the manner provided in Section 7. The City, the Fiscal Agent and any Paying Agent may treat the bearer of any 1978 Bond which shall not at the time be registered as to principal and interest, and the bearer of any coupon, as the absolute owner of such 1978 Bond, or coupon, as the case may be, for the purpose of receiving payment thereof and for all other purposes, and neither the City, the Fiscal Agent nor any Paying Agent shall be affected by any notice or knowledge to the contrary, whether such 1978 Bond or coupon shall be overdue or not.

SECTION 7. *Registration of 1978 Bonds.* Upon presentation of any coupon 1978 Bond to the Fiscal Agent in San Francisco, California, for such purpose by the holder thereof, the Fiscal Agent will detach and hold in safekeeping the coupons attached to such 1978 Bond and will register or cause to be registered, on the books required to be kept pursuant to Section 8, in the name of the holder or his nominee, the ownership of such 1978 Bond, such registration being noted on such 1978 Bond. After such registration and notation, no transfer of any such 1978 Bond shall be valid, unless made on said books at the request of the registered owner or by his duly authorized attorney and similarly noted on such 1978 Bond. The addresses appearing in the registration book shall be deemed to be for all purposes the addresses of the registered owners. The person in whose name any 1978 Bond is registered shall be deemed the owner thereof for all purposes hereof. The Fiscal Agent shall pay interest to the owner of any registered 1978 Bond by check mailed to such owner at his address appearing in the registration book and shall pay to the owner or his legal assignee the principal of any registered 1978 Bond upon presentation and surrender of such registered 1978 Bond. All such payments shall be valid and effectual to satisfy and discharge liability upon such 1978 Bond to the extent of the sum or sums so paid.

The registered owner of any registered 1978 Bond may at any time (provided such 1978 Bond shall not have been called for redemption) present such 1978 Bond to the Fiscal Agent and request conversion of such 1978 Bond into a coupon 1978 Bond, in which event the Fiscal Agent shall cancel the registration of such 1978 Bond and attach thereto coupons for all unmatured interest thereon and as a condition of any such conversion may require such charge therefor as it may deem proper, not exceeding \$5.00. All transfers, registrations and discharges from registration shall otherwise be without expense to the holder, except that any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Bondholder requesting the transfer, registration or discharge from registration as a condition precedent to the exercise of such privilege and except that the Fiscal Agent may require of such Bondholder such cash adjustment as may be necessary with respect to the first coupon next to mature on each coupon 1978 Bond issued upon conversion of a registered 1978 Bond so that no gain or loss of interest shall result from such conversion. All transfers, registrations and discharges from registration shall be made under such reasonable regulations as the Fiscal Agent may prescribe.

SECTION 8. *1978 Bond Register.* The Fiscal Agent will keep or cause to be kept at its office in San Francisco, California, sufficient books for the registration and transfer of the 1978 Bonds, and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, 1978 Bonds as hereinabove provided.

SECTION 9. *1978 Bonds Mutilated, Destroyed, Stolen or Lost.* In case any 1978 Bond shall become mutilated in respect of the body of such bond or the coupons, if any, appertaining thereto, or shall be believed by the City to have been destroyed, stolen or lost, upon proof of ownership satisfactory to the City and upon the surrender of such mutilated 1978 Bond with its coupons, if any, at the office of the Fiscal Agent in San Francisco, California, or at any other office or agency of the City maintained for such purpose, or upon the receipt of evidence satisfactory to the City of such destruction, theft or loss, and upon receipt also of indemnity satisfactory to the City, and upon payment of all expenses incurred by the City in the premises, the City shall execute and deliver at said office of the Fiscal Agent, or at such other office or agency, a new 1978 Bond or Bonds of the same maturity and for the same aggregate principal amount, with the coupons, if any, appertaining thereto, of like tenor and date, bearing the same number or numbers, with such notations as the City shall determine, in exchange and substitution for and upon cancellation of the mutilated 1978 Bond and its coupons, if any, or in lieu of and in substitution for the 1978 Bond and its coupons, if any, so destroyed, stolen or lost.

If any such destroyed, stolen or lost 1978 Bond shall have matured, payment of the amount due thereon may be made by the City upon receipt of like proof, indemnity and payment of expenses.

Any such duplicate 1978 Bonds or coupons issued pursuant to this section shall be entitled to equal and proportionate benefits with all other 1978 Bonds issued hereunder. The City and the Fiscal Agent shall not be required to treat both the original 1978 Bond and any duplicate 1978 Bond as being outstanding for the purpose of determining the principal amount of 1978 Bonds which may be issued hereunder or for the purpose of determining any percentage of 1978 Bonds outstanding hereunder, but both the original and duplicate 1978 Bond shall be treated as one and the same.

SECTION 10. *Temporary 1978 Bonds.* Until definitive 1978 Bonds shall be prepared, the City may cause to be executed and delivered in lieu of such definitive 1978 Bonds and subject to the same provisions, limitations and conditions as are applicable in the case of definitive 1978 Bonds, except that they may be in any denominations authorized by the Council and shall be registrable as to both principal and interest, one or more temporary typed, printed, lithographed or engraved 1978 Bonds in bearer or registered form without coupons as may be authorized by the Council, substantially of the same tenor and, until exchanged for definitive 1978 Bonds, entitled and subject to the same benefits and provisions of this supplemental resolution as definitive 1978 Bonds of the same maturity. If the City issues temporary 1978 Bonds it will execute and furnish definitive 1978 Bonds without unnecessary delay and thereupon the temporary 1978 Bonds may be surrendered to the Fiscal Agent in San Francisco, California, without expense to the holder, in exchange for definitive 1978 Bonds of like aggregate principal amount, of the same character and serial maturity. All temporary 1978 Bonds so surrendered shall be cancelled by the Fiscal Agent.

SECTION 11. *Issuance of 1978 Bonds.* At any time after the adoption of this supplemental resolution, the City may sell and deliver the 1978 Bonds in the aggregate principal amount of three million two hundred fifty thousand dollars (\$3,250,000).

SECTION 12. *Application of Proceeds of Sale of 1978 Bonds; Construction Fund.* Upon the receipt of payment for any of the 1978 Bonds when the same shall have been duly sold by the City, the proceeds from such sale shall be paid to the Fiscal Agent and the Fiscal Agent shall set aside and deposit the proceeds received from such sale in the following respective funds and in the following order of priority:

(a) The Fiscal Agent shall deposit in the Interest Account established pursuant to Section 4.03 of the Resolution a sum equal to the amount of interest becoming due on the 1978 Bonds to and including May 1, 1979, to be used only to pay interest on the 1978 Bonds.

(b) The Fiscal Agent shall deposit in the Reserve Account established pursuant to Section 4.03 of the Resolution a sum sufficient to increase the amount in such account to the Maximum Annual Debt Service on the 1971 Sewer Revenue Bonds and the 1978 Bonds.

(c) The Fiscal Agent shall set aside and transfer the remainder of such proceeds to the Finance Officer and the Finance Officer shall deposit said remainder in a separate fund to be known as the "City of Merced

1978 Sewer Project Construction Fund" (the "1978 Construction Fund"), which fund the City hereby covenants to establish and maintain. The moneys in the 1978 Construction Fund shall be used in the manner provided by law for the purpose of paying the costs of the acquisition and construction of the improvements to the Enterprise described in Section 1 (d), including payment of all costs incidental to or connected with the acquisition and construction of such improvements to the Enterprise, all engineering, inspection, legal and fiscal agent's fees, and costs of the issuance of the 1978 Bonds. Any balance remaining in the 1978 Construction Fund after the date of completion of the acquisition and construction of such improvements to the Enterprise, and in any event no later than May 1, 1983, shall be transferred to the Fiscal Agent for deposit in the Reserve Account to the extent necessary at that time to restore the Reserve Account to the amount required by the provisions of the Resolution to be on deposit therein, and any remaining balance shall be deposited by the Fiscal Agent in the Revenue Fund and applied only as provided in Section 4.03(1), (2), (4) and (5)(b) and (c) of the Resolution.

All moneys held by the Finance Officer in the 1978 Construction Fund shall be secured at all times by such obligations and to the fullest extent required by law and shall not be invested, *except* that any moneys in said fund not immediately required to be expended may be invested by the Finance Officer in direct negotiable obligations of the United States of America or in negotiable obligations fully guaranteed as to both principal and interest by the United States of America which mature prior to the date on which the Finance Officer estimates that such moneys will be required for expenditure by the City, and in any event not more than three years from the date of purchase by the Finance Officer. All interest and profit received by the Finance Officer on any moneys so invested shall be deposited in and for the purposes of said fund.

SECTION 13. *Security of 1978 Bonds.*

(a) The 1978 Bonds shall be revenue bonds, payable exclusively from the Revenues of the Enterprise as in the Resolution provided, and are not to be secured by the taxing power of the City. No recourse shall be had for the payment of the 1978 Bonds, or interest thereon, or any part thereof, against the general fund of the City, nor shall the credit or taxing power of the City be deemed to be pledged thereto, and the holders of the 1978 Bonds, or of the coupons thereto appertaining, shall never have the right to compel the exercise of the taxing power by the City or the forfeiture of any property of the City. The principal of and interest on the 1978 Bonds and any premiums upon the redemption of any thereof shall not be a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or upon any income, receipts or revenues of the City except the Revenues of the Enterprise pledged to the payment thereof as in the Resolution and this supplemental resolution provided.

(b) The 1978 Bonds hereby authorized to be issued and the 1971 Sewer Revenue Bonds and all Additional Bonds which may be issued in accordance with the terms and conditions of the Resolution shall be special obligations of the City and shall be secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premiums upon the redemption of any thereof, solely from and secured by a lien upon the Revenues of the Enterprise as provided in the Resolution. The City hereby pledges and assigns for the security of all of such Bonds all of the Revenues of the Enterprise, including the Revenues of improvements, additions and extensions thereto which may hereafter be constructed or acquired from Revenues or from the proceeds of sale of the 1978 Bonds or of such Additional Bonds. The sums required to meet the payment of interest on and principal of all such Bonds and any premiums upon the redemption of any thereof shall be secured by an exclusive pledge, charge and lien upon all of the Revenues of the Enterprise and all of such Revenues, together with any interest earned thereon, and all other funds provided for in Article IV of the Resolution and any other funds that may hereafter be created from such Revenues for the payment of principal of or interest on or the better securing of the payment of principal of or interest on any of such Bonds, shall constitute a trust fund for the security and payment of the interest on and principal of all such Bonds and, except as otherwise specifically authorized by the Resolution, shall not be used for any other purpose so long as any of such Bonds or the interest thereon are outstanding or unpaid; *except* that out of all such Revenues there may be apportioned, so long as the interest on and principal of all such Bonds are paid as the same become due and payable, together with all other payments and charges required for the protection or better securing of such Bonds, such sums for such purposes as are authorized and provided for in Article IV of the Resolution.

(c) All of the 1971 Sewer Revenue Bonds and all of the 1978 Bonds hereby authorized to be issued and all Additional Bonds which may be issued in accordance with the terms and conditions of the Resolution shall be equally secured (except as to maturity and redemption provisions and except insofar as any sinking fund or funds established in accordance with the provisions of any supplemental resolution may afford additional security for any Additional Bonds of any specific series), without priority for number, date of bonds, of sale, of execution, or of delivery, by said pledge, charge and lien upon the Revenues of the Enterprise pursuant to the Law and the Resolution. Said pledge, charge and lien shall be prior and paramount to any and all other claims and obligations that may arise or be incurred against such Revenues.

SECTION 14. *Further Covenants of the City.* The City, as issuer of the 1978 Bonds, hereby covenants that it will make no use of the proceeds of any of the 1978 Bonds which would cause any of the 1978 Bonds to be "arbitrage bonds" under Section 103(c) of the Internal Revenue Code; and, to that end, so long as any of the 1978 Bonds are outstanding, the City with respect to the proceeds of such 1978 Bonds, and all officers having custody or control of such proceeds, shall comply with all requirements of said section and the regulations of the United States Department of the Treasury thereunder, to the extent that such regulations are, at the time, applicable and in effect.

SECTION 15. *Terms of 1978 Bonds Subject to the Resolution.* Except as in this supplemental resolution otherwise expressly provided, every definition, term and condition contained in the Resolution shall apply to this supplemental resolution and to the 1978 Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this supplemental resolution.

SECTION 16. *Effective Date of Resolution.* This supplemental resolution shall take effect from and after its adoption.

PASSED AND ADOPTED on March 20, 1978, by the following vote:

AYES: *Councilmen* Hart, Goings, Robinson, Pipes, Henderson, Gabriault, Quigley.

NOES: *Councilmen* None

ABSENT: *Councilmen* None

WILLIAM P. QUIGLEY

Mayor of the City of Merced

(Seal)

ALLAN R. SCHELL

City Clerk of the City of Merced

CITY CLERK'S CERTIFICATE

I, ALLAN R. SCHELL, City Clerk of the City of Merced, State of California, hereby certify as follows:

The foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the City Council of said City duly and regularly and legally held at the regular meeting place thereof on March 20, 1978, of which meeting all of the members of the Council had due notice and at which a majority thereof were present.

At said meeting said resolution was adopted by the following vote:

AYES: *Councilmen* Hart, Goings, Robinson, Pipes, Henderson, Gabriault, Quigley.

NOES: *Councilmen* None

ABSENT: *Councilmen* None

I have carefully compared the same with the original minutes of said meeting on file and of record in my office, and the foregoing is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes, and said resolution has not been amended, modified or rescinded since the date of its adoption, and is now in full force and effect.

Dated: March 21, 1978.

ALLAN R. SCHELL

City Clerk of the City of Merced

(Seal)

CITY COUNCIL
of the
CITY OF MERCED

Resolution No. 3733

Providing for the Issuance of
\$900,000 Principal Amount of
City of Merced
1971 Sewer Revenue Bonds

Adopted April 5, 1971

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RESOLUTION NO. 3733**Resolution Providing for the Issuance of \$900,000 Principal
Amount of City of Merced 1971 Sewer Revenue Bonds,
and Prescribing the Terms and Conditions and Form of Said Bonds.**

WHEREAS, the City Council (the "Council") of the City of Merced (the "City"), a chartered city and municipal corporation duly organized and existing under the Constitution and laws of the State of California, on March 1, 1971, duly adopted its Ordinance No. 1007 (the "Ordinance") which, pursuant to the authority of Sections 200 and 201 of the Charter of the City, authorizes the Council to issue revenue bonds pursuant to the provisions of the Revenue Bond Law of 1941, except for the requirement that an election be held to authorize such bonds; and

WHEREAS, the City Council desires to issue bonds pursuant to the Ordinance; and

WHEREAS, the City now owns and operates a municipal sewer system and the Council has determined that the public interest and necessity demand the acquisition, construction, improvement and financing of improvements to said sewer system;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Merced, as follows:

ARTICLE I**AUTHORIZATION OF BONDS; DEFINITIONS****SECTION 1.01. *Authorization and Purpose.***

(a) The foregoing recitals are, and each of them is, true and correct and the Council so finds and determines.

(b) The Council hereby determines to authorize an issue of Bonds in the aggregate principal amount of \$900,000 in accordance with the Ordinance and in accordance with the Revenue Bond Law of 1941, but without an election, as provided in the Ordinance. In all other respects (except the requirement of an election) said Revenue Bond Law of 1941, as now in effect, is incorporated herein and made a part hereof.

(c) The Council has reviewed all proceedings heretofore taken relative to the authorization of the Bonds and has found, as a result of such review, and hereby finds and determines that all conditions, things and acts required by law to exist, happen or be performed precedent to and in the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, by the Charter and by the Ordinance and the City is now authorized, pursuant to each and every requirement of law, the Charter and the Ordinance to issue the Bonds in the manner and form provided in this Resolution.

(d) The Bonds shall issue for the purpose of providing funds for the acquisition, construction, improvement and financing of improvements to an Enterprise comprising the municipal sewer system of the City, including expansion of existing treatment and disposal facilities, lands, easements and rights in lands and other works, properties or structures necessary or convenient for improvements to said municipal sewer system.

(e) It is hereby found and determined that the City now owns and operates a municipal sewer system (the "system"); that the system is in need of the improvements (the "improvements") set forth in subsection (d) above; that the improvements will constitute additions, betterments, improvements and extensions of the system and integral parts thereof; that no revenues from the system are specifically pledged to the payment of any outstanding obligations of the City, and all revenues now or hereafter derived from the system are legally available for the payment of the Bonds; that the Enterprise when improved as described in subsection (d) above will constitute a complete sewer system for the City; that the acquisition, construction, improvement and financing of the improvements can be financed from the proceeds of sale of the Bonds; and that the proceeds of sale of the

Bonds shall be applied to the payment of the costs of the acquisition, construction, improvement and financing of the improvements. Accordingly, it is found and determined as follows: (1) the improvements can be completed from the funds available and to be available to the City from the proceeds of sale of the Bonds; (2) sewer service charges have heretofore been and can be fixed, levied and collected upon the Enterprise for the services and facilities furnished by the Enterprise; (3) said sewer service charges shall constitute the revenues of the Enterprise pledged to the payment of the principal of and interest on the Bonds and to the security of the Bonds as herein provided.

SECTION 1.02. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.02 shall for all purposes of this Resolution and of any Supplemental Resolution and of the Bonds and of any certificate, opinion or other document herein mentioned have the meanings herein specified. Unless otherwise defined in this Resolution, all terms used herein shall have the meanings assigned to such terms in the Law hereinafter mentioned.

Articles, Sections

All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Resolution, and the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Resolution as a whole and not to any particular Article, Section or subdivision hereof.

Bonds

The term “Bonds” means the \$900,000 principal amount of City of Merced 1971 Sewer Revenue Bonds and to the extent required by any Supplemental Resolution any Additional Bonds authorized by and at any time outstanding pursuant to this Resolution or any Supplemental Resolution. The term “Additional Bonds” means Bonds of the City issued in accordance with Section 3.03.

Certificate of the City

The term “certificate of the City” means an instrument in writing signed by the Mayor or by any officer of the City duly authorized by the Council for that purpose and by the Clerk, with the seal of the City affixed. Any such instrument and supporting opinions or representations may but need not be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

Any certificate of the City may be based, in so far as it relates to legal, accounting or engineering matters, upon the opinion or representation of counsel, accountants or engineers, unless the officer signing such certificate knows or in the exercise of reasonable care should have known that the opinion or representation with respect to the matters upon which such certificate may be based, as aforesaid, is erroneous. The same officer of the City, or the same counsel or accountant or other persons, as the case may be, need not certify to all of the matters required to be certified under any provision of this Resolution or any Supplemental Resolution, but different officers, counsel, accountants or other persons may certify to different facts, respectively.

Every certificate of the City and every opinion of counsel, accountants, engineers or other persons provided for herein shall include—

- (1) a statement that the person making or giving such certificate or opinion has read the pertinent provisions of this Resolution to which such certificate or opinion relates;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based;
- (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; and
- (4) with respect to any statement relating to compliance with any provision hereof, a statement as to whether, in the opinion of such person, such provision has been complied with.

City

The term “City” means the City of Merced, a chartered city and municipal corporation organized and existing under the laws of the State of California, in the County of Merced in said State.

Charter

The term “Charter” means the Charter of the City as in effect on the date of adoption of this Resolution.

Clerk

The term “Clerk” means the City Clerk of the City.

Council

The term “Council” means the City Council of the City.

Enterprise

The term “Enterprise” means the whole and each and every part of the municipal sewer system of the City, including all additions, betterments, extensions and improvements to the sewer system or any part thereof now or hereafter made.

Finance Officer

The term “Finance Officer” means the Finance Officer of the City.

Financial Newspaper

The term “financial newspaper or journal” means the Wall Street Journal, the Bond Buyer, or any other newspaper or journal publishing financial news and selected by the Fiscal Agent, whose decision shall be final and conclusive.

Fiscal Agent

The term “Fiscal Agent” means the principal office of Bank of America National Trust and Savings Association in San Francisco, California, appointed by the City in Section 6.01 and acting as an independent trustee with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 6.01.

Fiscal Year

The term “fiscal year” means the period beginning on July 1 of each year and ending on the next succeeding June 30.

Fund

Any “Fund” required by this Resolution to be established and maintained by the City may be established and maintained in the accounting records of the City either as a fund or an account, and may for the purposes of such records, any audits thereof and any reports or statements with respect thereto be treated either as a fund or as an account; but all such records with respect to all such Funds shall at all times be maintained in accordance with sound accounting practices and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

Holder or Bondholder

The term “holder” or “Bondholder” means any person who shall be the bearer of any outstanding Bond that is not registered or the registered owner of any outstanding Bond which shall at the time be registered as to principal and interest.

Independent Certified Public Accountant and Qualified Independent Engineer

The terms “independent certified public accountant” and “qualified independent engineer” mean, respectively, any certified public accountant or firm of such accountants, or any engineer or firm of engineers gen-

erally recognized to be well qualified in engineering matters relating to sewer systems, appointed and paid by the City, and who, or each of whom —

- (i) is in fact independent and not under domination of the City;
- (ii) does not have any substantial interest, direct or indirect, with the City; and
- (iii) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

Law

The term “Law” means the Revenue Bond Law of 1941, being Title 5, Division 2, Part 1, Chapter 6, of the Government Code of the State of California. Whenever reference is made in this Resolution to the Law, reference is made to the Law as in force on the date of the adoption of this Resolution, unless the context otherwise requires.

Maintenance and Operation Costs of the Enterprise

The term “maintenance and operation costs of the Enterprise” means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on sound accounting principles, including (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Maximum Annual Debt Service

The term “Maximum Annual Debt Service” means the sum of (1) the interest falling due on then outstanding Bonds, assuming that all then outstanding Bonds are retired as scheduled and (2) the principal amount of then outstanding Bonds falling due by their terms; all as computed for the fiscal year in which such sum is largest. The term “annual debt service” means the sum of said items (1) and (2) as computed for the then immediately ensuing twelve-month period.

Mayor

The term “Mayor” means the Mayor of the City.

Net Revenues

The term “Net Revenues” means all of the Revenues less all maintenance and operation costs of the Enterprise.

Ordinance

The term “Ordinance” means Ordinance No. 1007 of the Council, duly adopted on March 1, 1971.

Outstanding

The term “outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 7.02) all Bonds theretofore executed, issued and delivered by the City under this Resolution except—

- (1) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation;
- (2) Bonds for the payment or redemption of which funds in the necessary amount shall have theretofore been deposited with the Fiscal Agent (whether upon or prior to the maturity or redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Section 2.03 provided; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to Section 2.09.

Resolution

The term "Resolution" means this Resolution, adopted on April 5, 1971 by the Council pursuant to the Ordinance.

Revenues

The term "Revenues" means the sums required by Section 3.02 to be deposited in the Interest Account and Reserve Account established pursuant to Section 4.03, together with all gross revenues of the Enterprise received on or after May 1, 1971, including all charges received for, and all other income and receipts derived by the City from the operation of the Enterprise or arising from the Enterprise, excepting sewer facilities charges, sewer extension charges, sewer connection charges and refundable deposits made to establish credit.

Supplemental Resolution

The term "Supplemental Resolution" means any resolution then in full force and effect which has been duly adopted by the Council pursuant to the Ordinance, at a meeting of the Council duly convened and held, at which a quorum was present and acted thereon, amendatory of or supplemental to this Resolution; but only if and to the extent that such Supplemental Resolution is specifically authorized hereunder.

SECTION 1.03. *Equal Security.* In consideration of the acceptance of the Bonds and Additional Bonds by those who shall hold the same from time to time, this Resolution shall be deemed to be and shall constitute a contract between the City and the holders from time to time of the Bonds and Additional Bonds and interest coupons appertaining thereto; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the equal and proportionate benefit, security and protection of all holders of the Bonds and Additional Bonds and interest coupons without preference, priority or distinction as to security or otherwise of any of the Bonds or Additional Bonds or interest coupons over any of the others by reason of the series, number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

ARTICLE II

THE BONDS

SECTION 2.01. *Terms of Bonds.* The Bonds authorized to be issued by the City under and subject to the terms of this Resolution shall be designated "City of Merced 1971 Sewer Revenue Bonds" and shall be in the aggregate principal amount of nine hundred thousand dollars (\$900,000). The Bonds shall be dated May 1, 1971, shall be coupon Bonds in the denomination of five thousand dollars (\$5,000) each, shall be numbered 1 to 180, inclusive, and shall mature and become payable in consecutive numerical order from lower to higher, as set forth in the following schedule:

Maturity Date May 1	Principal Amount	Maturity Date May 1	Principal Amount	Maturity Date May 1	Principal Amount
1972.....	\$20,000	1979.....	\$35,000	1986.....	\$55,000
1973.....	25,000	1980.....	40,000	1987.....	60,000
1974.....	25,000	1981.....	40,000	1988.....	65,000
1975.....	25,000	1982.....	45,000	1989.....	70,000
1976.....	30,000	1983.....	45,000	1990.....	75,000
1977.....	30,000	1984.....	50,000	1991.....	80,000
1978.....	30,000	1985.....	55,000		

The Bonds shall bear interest at such rate or rates, not exceeding seven per cent (7%) per annum, as may be fixed by the Council at the time of sale of the Bonds. Such interest shall be payable semiannually on May 1 and November 1 in each year. The interest coupons attached to the Bonds shall be numbered in consecutive numerical order, and each such coupon shall represent six months' interest on the Bond to which it is attached. Both the principal of and interest on the Bonds shall be payable at the principal office of the Fiscal Agent in San Francisco, California, or at the office of any Paying Agent, in lawful money of the United States of America.

SECTION 2.02. *Redemption.* (a) Bonds numbered 1 to 110, both inclusive, maturing on or before May 1, 1986, are not subject to redemption prior to their respective maturity dates. Bonds numbered 111 to 180, both inclusive, maturing on or after May 1, 1987, are subject to redemption prior to their respective maturity dates at the option of the City, as a whole, or in part in inverse numerical order, from funds derived by the City from any source, on any interest payment date on or after May 1, 1981, at the principal amount thereof and accrued interest to date of redemption plus a premium of (a) $\frac{3}{4}$ of one per cent plus (b) an additional $\frac{1}{4}$ of one per cent for each whole year and for the fraction of a year, if any, remaining from the date fixed for redemption to the stated maturity of the Bonds so redeemed.

(b) The Fiscal Agent shall cause notice of any redemption to be published once a week for two successive weeks (the first publication to be not less than thirty nor more than sixty days prior to the date fixed for redemption) in a financial newspaper or journal, printed in the English language, of general circulation in San Francisco, California or in New York, New York. Such notice shall state the redemption date and the redemption price and shall designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, have been called for redemption, and shall require that such Bonds be then surrendered with all interest coupons maturing on or subsequent to the redemption date at the office of the Fiscal Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue after the redemption date.

A similar notice shall be mailed by the Fiscal Agent to the respective registered owners of any Bonds designated for redemption, and to the original purchaser of said Bonds, or if said original purchaser is a syndicate, to the manager or managers of said syndicate, at least thirty but not more than sixty days prior to the redemption date, at their addresses appearing on the Bond registration books in the office of the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Bonds.

Such notice of redemption shall be so published and mailed by the Fiscal Agent at the written request of the City (which request shall be given to the Fiscal Agent at least forty-five days prior to the date fixed for redemption), but only after the City shall have deposited with or otherwise made available to the Fiscal Agent the moneys required for payment of the redemption price of all Bonds then to be called for redemption, together with the estimated expense of giving such notice.

After the date fixed for redemption, if notice of such redemption shall have been duly published and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption shall have been duly provided, such Bonds so called shall cease to be entitled to any benefit under this Resolution other than the right to receive payment of the redemption price, and no interest shall accrue thereon after the redemption date specified in such notice.

All Bonds redeemed pursuant to the provisions of this Section and the appurtenant coupons, if any, and all Bonds purchased by the Fiscal Agent pursuant to Section 4.03(5)(c) and the appurtenant coupons, if any, shall be canceled by the Fiscal Agent and a certificate of such cancelation shall be delivered by the Fiscal Agent to the City.

SECTION 2.03. *Form of Bonds.* The Bonds, the interest coupons to be attached thereto, and the form of registration endorsement to appear thereon shall be substantially in the following forms, respectively:

[FORM OF BOND]

No. _____

\$5,000

UNITED STATES OF AMERICA
 STATE OF CALIFORNIA
 COUNTY OF MERCED
 CITY OF MERCED
 1971 SEWER REVENUE BOND

THE CITY OF MERCED, a chartered city and municipal corporation organized and existing under the Constitution and laws of the State of California (the "City"), for value received hereby promises to pay (but only out of the Revenues hereinafter referred to) to the bearer hereof, or, if this Bond be registered, to the registered owner hereof, on May 1, _____ (subject to any right of prior redemption hereinafter provided for) the principal sum of Five Thousand Dollars (\$5,000), together with interest thereon from the date hereof until the principal hereof shall have been paid, at the rate of _____ per cent (____%) per annum, payable semiannually on May 1 and November 1 in each year. Interest due on or before the maturity of this Bond shall be payable only according to the tenor, and upon presentation and surrender, of the annexed interest coupons as they severally become due. Both the principal hereof and interest hereon are payable at the principal office of Bank of America National Trust and Savings Association, the Fiscal Agent of the City, in San Francisco, California, in lawful money of the United States of America.

This Bond is one of a duly authorized issue of revenue bonds of the City (the "Bonds") limited in aggregate principal amount to Nine Hundred Thousand Dollars (\$900,000), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions), all issued and to be issued pursuant to the Constitution and laws of the State of California, and the Charter of the City and Ordinance No. 1007 of the City (the "Ordinance"), incorporating the provisions of the Revenue Bond Law of 1941 (the "Law"), except for the requirement of an election, and pursuant to Resolution No. 3733 adopted by the City Council of the City on April 5, 1971 (the "Resolution"). Reference is hereby made to the Resolution, to any resolutions supplemental thereto, to the Ordinance and to the Law for a description of the terms on which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Revenues, as that term is defined in the Resolution, and the rights of the holders and registered owners of the Bonds and of the bearers of the appurtenant coupons; and all the terms of the Resolution, the Ordinance and the Law are hereby incorporated herein and constituted a contract between the City and the holder or registered owner from time to time of this Bond, and to all the provisions thereof the holder or registered owner of this Bond, by his acceptance hereof, consents and agrees. Each taker and subsequent holder hereof and of said coupons, whether said coupons are attached hereto or detached herefrom, shall have recourse to all of the provisions of the Law, the Ordinance and the Resolution and shall be bound by all of the terms and conditions thereof.

The Bonds are issued to provide funds for the acquisition, construction, improvement and financing of improvements to an Enterprise, consisting of the municipal sewer system of the City as more particularly described in the Resolution. The Bonds are special obligations of the City and are payable, as to the principal thereof, interest thereon and any premiums upon the redemption of any thereof, from the gross revenues of said Enterprise (which, as more particularly defined in the Resolution, are therein and herein called the "Revenues"). All of the Bonds are equally secured by a pledge of, and charge and lien upon, all of the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of the Bonds. Additional Bonds payable from the Revenues may be issued on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Resolution.

The principal of and interest on this Bond are payable solely from the Revenues, and the City is not obligated to pay it except from the Revenues. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Bonds or their interest. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the Revenues.

The City covenants that, so long as any of the Bonds are outstanding, it will fix, prescribe and collect rates, fees and charges in connection with the services and facilities furnished by the Enterprise so as to yield Revenues at least equal to the amounts thereof prescribed by the Resolution and sufficient to pay the principal of and interest on the Bonds in accordance with the provisions of the Resolution.

Bonds numbered 1 to 110, both inclusive, maturing on or before May 1, 1986, are not subject to redemption prior to their respective maturity dates. Bonds numbered 111 to 180, both inclusive, maturing on or after May 1, 1987, are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part in inverse numerical order, from funds derived by the City from any source, on any interest payment date on or after May 1, 1981, at the principal amount thereof and accrued interest to date of redemption plus a premium of (a) $\frac{3}{4}$ of one per cent plus (b) an additional $\frac{1}{4}$ of one per cent for each whole year and for the fraction of a year, if any, remaining from the date fixed for redemption to the stated maturity of the Bonds so redeemed.

This Bond is negotiable and transferable by delivery unless registered as to principal and interest in the name of the holder in the manner provided in the Resolution and thereafter the principal hereof and interest hereon shall be payable only to the registered owner.

The rights and obligations of the City and of the holders and registered owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Resolution, but no such modification or amendment shall (1) extend the maturity of this Bond, or reduce the interest rate hereon, or otherwise alter or impair the obligation of the City to pay the principal hereof, or interest hereon, or any premium payable on the redemption hereof, at the time and place and at the rate and in the currency provided herein, without the express consent of the holder or registered owner of this Bond, or (2) reduce the percentage of Bonds required for the written consent to an amendment or modification; all as more fully set forth in the Resolution.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit prescribed by the Constitution or laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Resolution.

IN WITNESS WHEREOF, the City of Merced has caused this Bond to be executed under its official seal, signed by its Mayor and its Finance Officer and countersigned by its City Clerk, and has caused the interest coupons attached hereto to be signed by its Finance Officer and this Bond to be dated May 1, 1971.

Mayor of the City of Merced

Finance Officer of the City of Merced

Countersigned:

City Clerk of the City of Merced

(Seal)

[FORM OF INTEREST COUPON]

Coupon No. _____

The City of Merced, on _____ 1, 19____,
 (subject to any right of prior redemption reserved in the Bond herein mentioned) will pay to bearer (unless said Bond is registered) exclusively from the Revenues referred to in said Bond, at the principal office of Bank of America National Trust and Savings Association in San Francisco, California, upon surrender hereof, the sum shown hereon in lawful money of the United States \$ _____ of America, being interest then due on its 1971 Sewer Revenue Bond, dated May 1, 1971 _____ No. _____

Finance Officer of the City of Merced

[FORM OF REGISTRATION ENDORSEMENT]

This Bond is registered in the name of the registered owner whose name and address appear last in the space below and both the principal of and interest on this Bond are payable to such registered owner.

Note: There must no writing in the space below except by the Fiscal Agent.

Date of Registry	Name of Registered Owner	Address of Registered Owner	Signature of Fiscal Agent
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

SECTION 2.04. Execution of Bonds. The Mayor and the Finance Officer are hereby authorized and directed to sign each of the Bonds on behalf of the City and the Clerk is hereby authorized and directed to countersign each of the Bonds and to impress or imprint by facsimile the official seal of the City thereon. The signatures of the Mayor and the Finance Officer may be printed, lithographed or engraved facsimile signatures, but the Clerk shall manually countersign each Bond. The Finance Officer is hereby authorized and directed to sign each of the interest coupons by printed, lithographed or engraved facsimile signature. In case any such officer whose signature or countersignature appears on the Bonds or coupons shall cease to be such officer before the delivery of such Bonds to the purchaser, such signature or countersignature shall nevertheless be valid and sufficient for all purposes the same as though he had remained in office until the delivery of the Bonds.

SECTION 2.05. Transfer of Bonds. As provided by the Law, all coupon Bonds shall be negotiable instruments transferable by delivery, unless registered as to principal and interest in the manner provided in Section 2.06. The City, the Fiscal Agent and any Paying Agent may treat the bearer of any Bond which shall not at the time be registered as to principal and interest, and the bearer of any coupon as the absolute owner of such Bond, or coupon, as the case may be, for the purpose of receiving payment thereof and for all other purposes,

and neither the City, the Fiscal Agent nor any Paying Agent shall be affected by any notice or knowledge to the contrary, whether such Bond or coupon shall be overdue or not.

SECTION 2.06. *Registration of Bonds.* Upon presentation of any coupon Bond to the Fiscal Agent in San Francisco, California, for such purpose by the holder thereof, the Fiscal Agent will cut off and cancel or hold in safekeeping the coupons attached to such Bond and will register or cause to be registered on the books required to be kept pursuant to Section 2.07, in the name of the holder or his nominee, the ownership of such Bond, such registration being noted on the Bond. After such registration and notation, no transfer of any such Bond shall be valid, unless made on said books at the request of the registered owner or by his duly authorized attorney and similarly noted on the Bond. The addresses appearing in the registration book shall be deemed to be for all purposes the addresses of the registered owners. The person in whose name any Bond is registered shall be deemed the owner thereof for all purposes hereof. The Fiscal Agent shall pay interest to the owner of any registered Bond by check mailed to such owner at his address appearing in the registration book and shall pay to the owner or his legal assignee the principal of any registered Bond upon presentation and surrender of such registered Bond. All such payments shall be valid and effectual to satisfy and discharge liability upon such Bond to the extent of the sum or sums so paid.

The registered owner of any registered Bond may at any time (provided such Bond shall not have been called for redemption) present such Bond to the Fiscal Agent and request conversion of such Bond into a coupon Bond, in which event the Fiscal Agent shall cancel the registration of such Bond and shall attach thereto coupons for all unmatured interest thereon and as a condition of any such conversion may require such charge therefor as it may deem proper, not exceeding \$5.00. All transfers, registrations and discharges from registration shall otherwise be without expense to the holder, except that any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Bondholder requesting the transfer, registration or discharge from registration as a condition precedent to the exercise of such privilege and except that the Fiscal Agent may require of such Bondholder such cash adjustment as may be necessary with respect to the first coupon next to mature on each coupon Bond issued upon conversion of a registered Bond so that no gain or loss of interest shall result from such conversion. All transfers, registrations and discharges from registration shall be made under such reasonable regulations as the Fiscal Agent may prescribe.

SECTION 2.07. *Bond Register.* The Fiscal Agent will keep or cause to be kept at its office in San Francisco, California, sufficient books for the registration and transfer of the Bonds, and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

SECTION 2.08 *Bonds Mutilated, Destroyed, Stolen or Lost.* In case any Bond shall become mutilated in respect of the body of such Bond or the coupons, if any, appertaining thereto, or shall be believed by the City to have been destroyed, stolen or lost, upon proof of ownership satisfactory to the City and upon the surrender of such mutilated Bond with its coupons, if any, at the office of the Fiscal Agent in San Francisco, California, or at any other office or agency of the City maintained for such purpose, or upon the receipt of evidence satisfactory to the City of such destruction, theft or loss, and upon receipt also of indemnity satisfactory to the City, and upon payment of all expenses incurred by the City in the premises, the City shall execute and deliver at said office of the Fiscal Agent, or at such other office or agency, a new Bond or Bonds of the same series and maturity and for the same aggregate principal amount, with the coupons, if any, appertaining thereto, of like tenor and date, bearing the same number or numbers, with such notations as the City shall determine, in exchange and substitution for and upon cancelation of the mutilated Bond and its coupons, if any, or in lieu of and in substitution for the Bond and its coupons, if any, so destroyed, stolen or lost.

If any such destroyed, stolen or lost Bond shall have matured, payment of the amount due thereon may be made by the City upon receipt of like proof, indemnity and payment of expenses.

Any such duplicate Bonds or coupons issued pursuant to this Section shall be entitled to equal and proportionate benefits with all other Bonds issued hereunder. The City and the Fiscal Agent shall not be required to

treat both the original Bond and any duplicate Bond as being outstanding for the purpose of determining the principal amount of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds outstanding hereunder, but both the original and duplicate Bond shall be treated as one and the same.

SECTION 2.09. *Temporary Bonds.* Until definitive Bonds shall be prepared, the City may cause to be executed and delivered in lieu of such definitive Bonds and subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds, except that they may be in any denominations authorized by the Council and shall be registrable as to both principal and interest, one or more temporary typed, printed, lithographed or engraved Bonds in bearer or registered form without coupons as may be authorized by the Council, substantially of the same tenor and, until exchanged for definitive Bonds, entitled and subject to the same benefits and provisions of this Resolution as definitive Bonds of the same maturity. If the City issues temporary Bonds it will execute and furnish definitive Bonds without unnecessary delay and thereupon the temporary Bonds may be surrendered to the Fiscal Agent in San Francisco, California, without expense to the holder, in exchange for definitive Bonds of like aggregate principal amount, of the same character and serial maturity. All temporary Bonds so surrendered shall be canceled by the Fiscal Agent.

ARTICLE III

ISSUE OF BONDS; ADDITIONAL BONDS

SECTION 3.01. *Issuance of Bonds.* At any time after the adoption of this Resolution, the City may sell and deliver the Bonds in the aggregate principal amount of nine hundred thousand dollars (\$900,000).

SECTION 3.02. *Application of Proceeds of Sale of Bonds; Construction Fund.* Upon the receipt of payment for any of the Bonds when the same shall have been duly sold by the City, the proceeds from such sale shall be paid to the Fiscal Agent and the Fiscal Agent shall set aside and deposit the proceeds received from such sale in the following respective funds and in the following order of priority:

(a) The Fiscal Agent shall deposit in the Interest Account established pursuant to Section 4.03 a sum equal to the amount of accrued interest received upon the sale of the Bonds.

(b) The Fiscal Agent shall deposit in the Reserve Account established pursuant to Section 4.03 a sum equal to Maximum Annual Debt Service.

(c) The Fiscal Agent shall set aside and transfer the remainder of such proceeds to the Finance Officer and the Finance Officer shall deposit said remainder in a separate fund to be known as the "City of Merced Sewer Project Construction Fund" (the "Construction Fund"), which fund the City hereby covenants to establish and maintain. The moneys in the Construction Fund shall be used in the manner provided by law for the purpose of paying the costs of the acquisition, construction, improvement and financing of the improvements to the Enterprise described in Section 1.01(d), including payment of all costs incidental to or connected with the acquisition, construction, improvement or financing of the improvements to the Enterprise, all engineering, inspection, legal and fiscal agent's fees, and costs of the issuance of the Bonds. Any balance remaining in the Construction Fund after the date of completion of the acquisition, construction, improvement and financing of said improvements to the Enterprise, and in any event no later than May 1, 1976, shall be transferred to the Fiscal Agent for deposit in the Reserve Account to the extent necessary at that time to restore the Reserve Account to the amount required by the provisions hereof and any remaining balance shall be deposited by the Fiscal Agent in the Revenue Fund and applied only as provided in Section 4.03(1), (2), (4) and (5)(b) and (c).

SECTION 3.03. *Limitation on the Issuance of Additional Bonds.* In addition to the Bonds authorized to be issued pursuant to this Resolution, the City may issue bonds payable from the Revenues and secured by a lien and charge upon the Revenues equal to the lien and charge securing the Bonds issued hereunder, but only subject

to the following specific conditions, which are hereby made conditions precedent to the issuance of any such bonds (herein called "Additional Bonds"):

(a) The City shall be in compliance with all covenants set forth in this Resolution and in all Supplemental Resolutions theretofore adopted by the Council, and a certificate of the City to that effect shall have been filed with the Fiscal Agent.

(b) The issuance of the Additional Bonds shall have been duly authorized pursuant to the Ordinance, and the issuance of the Additional Bonds shall have been provided for by a Supplemental Resolution duly adopted by the Council.

(c) Said Supplemental Resolution shall require that the proceeds of the Additional Bonds be applied solely for the purpose of the acquisition, construction, improvement and financing of improvements or additions to the Enterprise, including payment of costs incidental to or connected with said acquisition, construction, improvement and financing, or for the purpose of refunding any outstanding Bonds or Additional Bonds.

(d) The Additional Bonds shall be payable as to principal on May 1 of each year in which principal falls due, and shall be payable as to interest semiannually on May 1 and November 1 of each year or annually the first year and thereafter semiannually. Fixed serial maturities or mandatory minimum sinking fund payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all the Additional Bonds on or before their respective maturity dates.

(e) The Supplemental Resolution providing for the issuance of the Additional Bonds shall require that the Reserve Account be increased forthwith upon the receipt of the proceeds of the sale of said Additional Bonds to an amount at least equal to Maximum Annual Debt Service on the Bonds and on the Additional Bonds proposed to be issued and that an amount at least equal to Maximum Annual Debt Service on all Bonds and Additional Bonds at any time outstanding shall be thereafter maintained in the Reserve Account. Said deposit may be made from such proceeds or from the Surplus Revenue Account or from both such sources or any other source, as provided in said Supplemental Resolution.

(f) The Net Revenues for the last fiscal year or twelve-month period preceding the date of the adoption by the Council of the Supplemental Resolution providing for the issuance of such Additional Bonds, as shown by a certificate of an independent certified public accountant, plus

(i) An allowance for Net Revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such Additional Bonds or with the proceeds of Bonds previously issued, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such fiscal year or twelve-month period, were not in service, all in an amount equal to 75% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36 months in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer; and

(ii) An allowance for earnings arising from any increase in the charges made for the use of the Enterprise which has become effective prior to the issuance of such Additional Bonds but which, during all or any part of such fiscal year or twelve-month period, was not in effect, in an amount equal to 75% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such fiscal year or twelve-month period, as shown by the certificate or opinion of a qualified independent engineer,

shall have produced a sum equal to at least 1.35 times Maximum Annual Debt Service on the Bonds and such Additional Bonds. The certificates of an independent certified public accountant and of a qualified independent engineer, required by this paragraph (f), shall have been placed on file with the Fiscal Agent. In the event that the Additional Bonds are to be issued solely for the purpose of refunding and retiring Bonds or Additional Bonds then outstanding, principal and interest payments on Bonds or Additional Bonds to be so refunded and retired from the proceeds of the Additional Bonds being issued shall be excluded from the computations of principal and interest payments on Bonds and Additional Bonds then outstanding.

Nothing in this Resolution contained shall limit the issuance of any Additional Bonds if, after the issuance and delivery of such Additional Bonds, none of the Bonds or Additional Bonds authorized hereunder will be outstanding.

SECTION 3.04. *Validity of Bonds.* The validity of the authorization and issuance of the Bonds shall not be affected in any way by any proceedings taken by the City for the improvement of the Enterprise, or by any contracts made by the City in connection therewith. The recital contained in the Bonds that the same are issued pursuant to the Law shall be conclusive evidence of their validity and of the regularity of their issuance.

ARTICLE IV

REVENUES

SECTION 4.01. *Pledge of Revenues; Revenue Fund.*

(a) All of the Revenues are hereby irrevocably pledged to the punctual payment of the principal of and interest on the Bonds, and Revenues shall not be used for any other purpose while any of the Bonds remain outstanding; *except* that out of Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by Section 4.03. Said pledge shall constitute a first and exclusive lien on the Revenues for the payment of the Bonds in accordance with the terms thereof.

(b) Except to the extent specifically provided by Section 3.02, all Revenues, together with any interest earned thereon, shall, so long as any Bonds shall be outstanding hereunder, be deposited as received by the Finance Officer in a special fund to be designated as the "Sewer Revenue Bond Revenue Fund" (the "Revenue Fund", which is hereby created and which the City hereby covenants and agrees to maintain).

SECTION 4.02. *Receipt and Deposit of Revenues.* The City covenants and agrees that all Revenues provided for in this Article IV, when and as received, will be received and held by the City in trust hereunder and will be deposited by the City in the Revenue Fund and will be accounted for through the Revenue Fund. All such Revenues whether held by the City as trustee or deposited with the Fiscal Agent as trustee, all as herein provided, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes hereinafter in this Article IV set forth, and shall be accounted for separate and apart from all other moneys, funds, accounts or other resources of the City. All Revenues at any time paid into the Revenue Fund shall be held in trust for the benefit of the holder or holders at any time of the Bonds issued hereunder and the coupons appertaining thereto entitled to be paid therewith, and the City shall have no beneficial right or interest in any of such moneys except only as in this Resolution provided. All Revenues deposited with the Fiscal Agent shall be held, disbursed, allocated and applied as hereinafter provided in this Article IV exclusively by the Fiscal Agent, as trustee.

SECTION 4.03. *Establishment and Maintenance of Accounts for Revenues; Use and Withdrawal of Revenues.* All Revenues in the Revenue Fund shall be set aside by the Finance Officer in the City Treasury or deposited by the Finance Officer with the Fiscal Agent in the following respective special accounts (each of which is hereby created and each of which the City hereby covenants and agrees to maintain or cause to be maintained), in the following order of priority:

- (1) Interest Account,
- (2) Principal Account,
- (3) Maintenance and Operation Account,
- (4) Reserve Account, and
- (5) Surplus Revenue Account.

All Revenues in each of said accounts shall be held in trust by the Fiscal Agent or the City and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this Section 4.03.

(1) *Interest Account.* On or before the first day of each April and October beginning October 1, 1971, the Finance Officer shall deposit from the Revenue Fund with the Fiscal Agent in the Interest Account (the initial payment into which is provided for in Section 3.02(a)) an amount of Revenues equal to the aggregate half-yearly amount of the interest becoming due and payable on the outstanding Bonds during the next ensuing six months on all the Bonds outstanding. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due on the next interest payment date upon all of the Bonds issued hereunder and then outstanding. All moneys in the Interest Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Resolution).

(2) *Principal Account.* On or before the first day of each April beginning April 1, 1972, the Finance Officer shall deposit from the Revenue Fund with the Fiscal Agent in the Principal Account an amount of Revenues equal to at least the aggregate yearly amount of principal becoming due and payable on the outstanding Bonds during the twelve-month period ending on the next succeeding May 1.

No deposit need be made into the Principal Account so long as the amount contained therein is sufficient to pay the principal of all Bonds issued hereunder and then outstanding and maturing by their terms on the next succeeding May 1.

All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the principal of Bonds as they shall become due and payable.

(3) *Maintenance and Operation Account.* On or before the first day of each month, the Finance Officer shall set aside out of the Revenue Fund and deposit in the Maintenance and Operation Account the budgeted amount required by the City for maintenance and operation costs of the Enterprise during such month. Moneys in the Maintenance and Operation Account shall be used to pay the budgeted maintenance and operation costs of the Enterprise as they become due and payable.

(4) *Reserve Account.* On or before the first day of each month the Finance Officer shall deposit from the Revenue Fund with the Fiscal Agent in the Reserve Account such amount of Revenues as shall be required to maintain the Reserve Account (the initial payment into which is provided for in Section 3.02(b) hereof) in the full amount of Maximum Annual Debt Service or such larger amount as shall be required to be maintained on deposit in the Reserve Account by any Supplemental Resolution. No deposit need be made into the Reserve Account so long as there shall be in the Reserve Account a sum equal to at least the amount required by this paragraph to be on deposit therein. All moneys in the Reserve Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of replenishing the Interest Account or the Principal Account in the event of any deficiency in either of said accounts, or for the purpose of paying the principal of and interest on the Bonds in the event that no other moneys of the City are available therefor.

If the amount in the Reserve Account at any time exceeds said required balance and if the City is not then in default hereunder, the City may request the Fiscal Agent to withdraw the amount of such excess from said account and to pay such amount to the City, and upon thirty days' written notice of such request the Fiscal Agent shall so withdraw and pay such amount. Any amount so withdrawn and paid to the City shall be deposited by the Finance Officer in the Surplus Revenue Account. Except for such withdrawals, moneys in the Reserve Account shall be used and withdrawn solely for the purpose of paying the principal of and interest on the Bonds in the event that no other funds of the City are available therefor, or for the retirement of all of the Bonds then outstanding.

(5) *Surplus Revenue Account.* All moneys remaining in the Revenue Fund on April 1 of each year after setting aside and depositing all of the sums required to be set aside or deposited by the Finance Officer by the provisions of Section 4.03(1), (2), (3) and (4) hereof, shall be held by the Finance Officer and deposited in the Surplus Revenue Account. All moneys in the Surplus Revenue Account shall be used and withdrawn by the Finance Officer, as directed by the Council, for any or all of the following purposes, exclusively:

(a) To pay maintenance and operation costs of the Enterprise for the current fiscal year for which no adequate budgeted amount was provided by the City;

(b) To pay the costs of extensions or improvements of or additions or betterments to the Enterprise or of making new connections to the Enterprise;

(c) To be deposited with the Fiscal Agent and (i) used and withdrawn by the Fiscal Agent for the purpose of purchasing Bonds or Additional Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest) as it may in its discretion determine, but not to exceed the par value thereof, or, in the case of Bonds or Additional Bonds which by their terms are subject to call and redemption, the highest redemption price (excluding accrued interest) or the then current redemption price (excluding accrued interest), whichever is lower; (ii) used and withdrawn by the Fiscal Agent, for the purpose of calling and redeeming Bonds or Additional Bonds; or

(d) For any other lawful purpose of the City.

The Finance Officer shall not permit the withdrawal to be made by the City of any moneys held by the Finance Officer in the Surplus Revenue Account if and when the City is in default hereunder.

SECTION 4.04. *Deposit and Investment of Moneys in Funds.* All moneys held by the Finance Officer or the Fiscal Agent in any of the funds or accounts established pursuant to this Article IV shall be held in time or demand deposits in any bank or trust company authorized to accept deposits of public funds, and shall be secured at all times by such obligations as are required by law and to the fullest extent required by law, except such moneys as are at the time invested in accordance with this Section. Moneys in the Interest Account or the Principal Account may, and at the direction of the Finance Officer shall be invested by the Fiscal Agent, and moneys in the Maintenance and Operation Account in the Construction Fund may be invested by the Finance Officer, in direct negotiable obligations of the United States of America maturing prior to the date on which such moneys are required to be paid out hereunder. Moneys in the Reserve Account may, and at the direction of the Finance Officer shall be invested by the Fiscal Agent, and moneys in the Surplus Revenue Account may be invested by the Finance Officer, in direct negotiable obligations of the United States of America, or in negotiable obligations fully guaranteed as to both principal and interest by the United States of America, maturing not more than five years from the date of purchase by the Finance Officer or the Fiscal Agent, as the case may be. All interest received on any moneys so invested shall be deposited in the respective fund or account from which such investment was made.

ARTICLE V

COVENANTS OF THE CITY

SECTION 5.01. *Punctual Payment.* The City will punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Resolution, and will faithfully observe and perform all of the conditions, covenants and requirements of this Resolution and all Supplemental Resolutions and of the Bonds.

SECTION 5.02. *Against Encumbrances.* The City will not mortgage or otherwise encumber, pledge or place any charge upon the Enterprise or any part thereof, or upon any of the Revenues; provided however, that the City may enter into extension refund agreements if such agreements provide for payment by the City only out of the Surplus Revenue Account.

SECTION 5.03. *Against Sale or Other Disposition of Property.* The City will not sell, lease or otherwise dispose of the Enterprise or any part thereof essential to the proper operation of the Enterprise or to the maintenance of the Revenues except as herein expressly permitted. The City will not enter into any lease or agreement which impairs the operation of the Enterprise or any part thereof necessary to secure adequate Revenues for the payment of the principal of and interest on the Bonds, or which would otherwise impair the rights of the holders of the Bonds with respect to the Revenues or the operation of the Enterprise. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Enterprise, or any

material or equipment which has worn out, may be sold at not less than the market value thereof without the consent of Bondholders if such sale will not reduce Revenues and if all of the net proceeds of such sale are deposited in the Revenue Fund.

SECTION 5.04. *Maintenance and Operation of Enterprise.* The City will maintain and preserve the Enterprise in good repair and working order at all times from the Revenues available for such purposes, and will operate the Enterprise in an efficient and economical manner.

The City shall file with the Fiscal Agent, on or before the date of delivery of and payment for the Bonds, a budget setting forth the estimated maintenance and operation costs of the Enterprise for the period from May 1, 1971, to the end of the then current fiscal year. On or before the first day of each fiscal year thereafter, the City shall file with the Fiscal Agent a budget setting forth the estimated maintenance and operation costs of the Enterprise for the next succeeding fiscal year.

SECTION 5.05. *Payment of Claims.* The City will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Revenues or any part thereof, or upon any funds in the hands of the City, the Finance Officer or the Fiscal Agent prior or superior to the lien of the Bonds, or which might impair the security of the Bonds.

SECTION 5.06. *Insurance.*

(a) The City shall procure and maintain at all times while any of the Bonds shall be outstanding insurance on the Enterprise against such risks (including accident to or destruction of the Enterprise) as are usually insurable in connection with similar enterprises. Such insurance shall be adequate in amount and as to the risks insured against, and shall be maintained with responsible insurers. Any proceeds of any such insurance against accident to or destruction of the Enterprise collected by the City in the event of any loss or damage shall be deposited by the City with the Finance Officer. The City shall cause the Finance Officer to apply such proceeds to the repair or reconstruction or other improvement of the Enterprise. The City shall begin such work of repair, reconstruction or improvement promptly after such loss or damage shall occur and shall continue and properly complete the same as expeditiously as possible. The City shall pay out of the proceeds of such insurance, and from any other available funds, all costs and expenses in connection with such repair, reconstruction or improvements so that the same shall be completed and the Enterprise shall be free and clear of all liens and claims. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or improvement, the excess shall be deposited by the Finance Officer in the Revenue Fund and applied only as provided in Section 4.03.

(b) The City shall secure and maintain adequate fidelity insurance or bonds on all officers and employees handling or responsible for any Revenues or funds of the Enterprise, such insurance or bonds to be in an aggregate amount at least equal to the maximum amount of such Revenues or funds at any one time in the custody of all such officers and employees.

(c) The City covenants that upon the purchase or acquisition by it of any real property comprising any portion of the Enterprise it will obtain and pay for a policy of title insurance from a recognized title insurance company insuring the City for the full purchase price or cost of acquisition of such real property.

(d) The insurance described in subsections (a) and (b) of this section may be provided as a part of the City's comprehensive fidelity, public liability and property damage and other insurance and not separately for the Enterprise. All premiums payable with respect to any of the foregoing insurance or fidelity bonds (or such proportion thereof as shall be applicable to the Enterprise) shall be paid from the Maintenance and Operation Account provided for in Section 4.03(3).

The Finance Officer shall prepare in the month of July of each year a schedule setting forth the insurance policies then outstanding and in force upon or in connection with or incidental to the Enterprise, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby (including liability risks), which shall be open to inspection by any interested Bondholder.

SECTION 5.07. *Books and Accounts; Financial Statements.*

(a) The City will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent or of the holders of not less than ten per cent (10%) of the principal amount of the Bonds then outstanding or their representatives authorized in writing.

(b) The City will prepare and file with the Fiscal Agent annually within one hundred twenty (120) days after the close of each fiscal year (commencing with the fiscal year ending June 30, 1971) so long as any of the Bonds are outstanding—

(1) a detailed statement for the preceding fiscal year showing the Revenues, all disbursements from the Revenues and all expenditures applicable to the Enterprise, together with a detailed balance sheet reflecting the financial condition of the Enterprise, including the balances in all funds relating to the Enterprise held by the Finance Officer and the Fiscal Agent as of the beginning of such fiscal year and all deposits in and withdrawals from each such fund during such fiscal year and the balances in all such funds as of the end of such fiscal year, which statement and balance sheet shall be accompanied by a certificate or opinion in writing of an independent certified public accountant which shall include a statement as to the manner and extent to which the City has complied with the provisions of this Resolution as it relates to said Revenues, expenditures, funds and balance sheet;

(2) a general statement showing the schedule of service charges as of the close of such fiscal year, and the gross revenues received during such fiscal year;

(3) a general statement of the physical condition of the Enterprise; and

(4) a statement as to all insurance carried by the City as of the end of such fiscal year, including a brief description of the amount and coverage of each insurance policy and the name of the insuring company.

The City will prepare annually (at the expense of the City as part of the maintenance and operation costs of the Enterprise) not more than 120 days after the close of each fiscal year a summary statement showing the amount of the Revenues and the disbursements from the Revenues, in reasonable detail, for the preceding fiscal year, and a general statement of the financial and physical condition of the Enterprise.

The City will furnish a copy of such summary statement to any Bondholder upon request, and will furnish to the Fiscal Agent such reasonable number of copies thereof (not exceeding 100 copies) as may be required by the Fiscal Agent for distribution to investment bankers, security dealers and others interested in the Bonds and to the holders of Bonds requesting copies thereof. The Fiscal Agent shall not be required to incur any nonreimbursable expenses in making such distribution.

SECTION 5.08. *Protection of Security and Rights of Bondholders.* The City will preserve and protect the security of the Bonds and the rights of the Bondholders, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any of the Bonds by the City, the Bonds and coupons appertaining thereto shall be incontestable by the City.

SECTION 5.09. *Against Competitive Facilities.* The City will not acquire, construct, operate or maintain, and will not within the scope of its powers permit any other public or private corporation, political subdivision, district or agency or any person whatsoever to acquire, construct, operate or maintain, within the City or any part thereof, any system or utility competitive with the Enterprise.

SECTION 5.10. *Collection of Charges.* The City will have in effect at all times an ordinance or resolution requiring the owner of any premises located within or without the limits of the City and connected with the Enterprise to pay the fees, rates and charges applicable to such connection and for services and facilities furnished by the Enterprise. The City will not permit any part of the Enterprise, or any facility thereof, to be used, or taken advantage of, free of charge by any person, firm or corporation, or by any public agency (including the United

States of America, the State of California and any public corporation, political subdivision, city, county, district or agency of any thereof).

All sewer service charges in respect of the Enterprise shall be collected by the City upon monthly or bi-monthly bills therefor. The City shall have in effect at all times while any of the Bonds are outstanding an ordinance or resolution providing for such sewer service charges, for the billing thereof, for a due date and a delinquency date for each bill (which delinquency date shall be not later than 25 days following such due date), and for enforcement of such charges in the event of failure to pay any bill prior to delinquency.

Except as otherwise provided by Ordinance No. 951 of the City, adopted December 8, 1969, with regard to areas annexed to the City, the City will require every owner or user of any premises within the City limits on which domestic or industrial waste is produced to connect said premises to the Enterprise, to use no means of sewage waste disposal other than through the sewer lines of the Enterprise, and to pay the fees, rates and other charges applicable to such connection and to the services and facilities furnished by the Enterprise.

SECTION 5.11. *Payment of Taxes, Etc.* The City will pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Enterprise or any part thereof or upon any Revenues, when the same shall become due. The City will duly observe and conform with all valid requirements of any governmental authority relative to the Enterprise or any part thereof.

SECTION 5.12. *Construction of Improvements.* The City will commence, and will continue to completion, with all practicable dispatch, the acquisition and construction of the improvements to the Enterprise described in the measure set forth in Section 1.01, and said improvements will be acquired, constructed and completed in a sound and economical manner and in conformity with law.

SECTION 5.13. *Eminent Domain Proceeds.* If all or any part of the Enterprise shall be taken by eminent domain proceedings, the net proceeds realized by the City therefrom shall be deposited by the Finance Officer in a special fund in trust and applied and disbursed by the Finance Officer subject to the following conditions:

(a) If such proceeds are sufficient to provide for the payment of the entire amount of principal due or to become due upon all of the Bonds, together with all of the interest due or to become due thereon and any redemption premiums, so as to enable the City to retire all of the Bonds then outstanding, either by redemption at the then current redemption prices or by payment at maturity or partly by redemption prior to maturity and partly by payment at maturity, the Finance Officer shall apply such moneys to such retirement and to the payment of such interest. The balance of such moneys, if any, shall be available for use by the City for any lawful purpose.

(b) If such proceeds are insufficient to provide the moneys required for the purposes set forth in the foregoing subsection (a), the Council shall by resolution determine to apply such proceeds for one of the following purposes, subject to the conditions hereinafter in this subsection (b) set forth:

(1) The City may determine to apply such proceeds to the purchase or redemption of Bonds then outstanding. In that event, such proceeds shall be deposited with the Fiscal Agent, and shall be applied by the Fiscal Agent pro rata to the redemption or purchase of the Bonds and Additional Bonds then outstanding in the proportion which the principal amount of the outstanding Bonds and each series of Additional Bonds bears to the aggregate principal amount of all Bonds and Additional Bonds then outstanding. If the Fiscal Agent is unable to purchase or redeem Bonds in amounts sufficient to exhaust the moneys available, the remainder of such moneys shall be held in trust by the Fiscal Agent and applied to the payment of the Bonds as the same become due by their terms, and, pending such application, such remaining moneys may be invested by the Fiscal Agent in the manner provided in Section 4.04 for the investment of moneys in the Reserve Account.

(2) The City may determine to apply such proceeds to the cost of additions or improvements to the Enterprise if (A) the City first secures and files with the Fiscal Agent a report of a qualified independent engineer showing (i) the loss in annual Revenues, if any, suffered, or to be suffered, by the City

by reason of such eminent domain proceedings, (ii) a general description of the additions or improvements then proposed to be acquired by the City from such proceeds, and (iii) an estimate of the additional Revenues to be derived from such additions or improvements; and (B) the Fiscal Agent, on the basis of such engineer's report, determines that such additional Revenues will sufficiently offset the loss of Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations hereunder will not be substantially impaired. Such determination by the Fiscal Agent shall be final and conclusive. The City shall then promptly proceed with the construction of the additions or improvements substantially in accordance with such engineer's report. Payments for such construction shall be made by the Finance Officer from such proceeds. Any balance of such proceeds not required by the City for the purposes aforesaid shall be deposited in the Revenue Fund and applied only as provided in Section 4.03.

(3) If such eminent domain proceedings have had no effect, or at the most a relatively immaterial effect, upon the Revenues and the security of the Bonds, and a qualified independent engineer so concludes in a certificate filed with the Fiscal Agent, the Fiscal Agent may so determine. Such determination by the Fiscal Agent shall be final and conclusive and, upon notice thereof, the Finance Officer shall forthwith deposit such proceeds in the Revenue Fund, to be applied only as provided in Section 4.03.

SECTION 5.14. *Amounts of Rates and Charges.*

(a) The City will, at all times while any of the Bonds remain outstanding, fix, prescribe and collect rates, fees and charges in connection with the services and facilities furnished by the Enterprise so as to yield Revenues at least sufficient, after making reasonable allowances for contingencies and error in the estimates, to pay the following amounts in the order below set forth:

(1) The interest on and principal of the Bonds as they become due and payable.

(2) All payments required for compliance with the terms of this Resolution and of any Supplemental Resolution providing for the issuance of Additional Bonds pursuant to Article III.

(3) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the Revenues.

(4) All current expenses of maintenance and operation of the Enterprise.

(b) In addition to the requirements of the foregoing subsection (a), the City will, at all times while any of the Bonds remain outstanding, fix, prescribe and collect rates, fees and charges in connection with the services and facilities furnished by the Enterprise so as to yield Net Revenues during the then immediately ensuing period of twelve months equal to at least 1.35 times annual debt service. The City may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce such rates, fees and charges below those then in effect unless the Revenues from such reduced rates will at all times be sufficient to meet the requirements of this Section 5.14.

SECTION 5.15. *Further Assurances.* The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Resolution, and for the better assuring and confirming unto the holders of the Bonds of the rights and benefits provided in this Resolution.

ARTICLE VI

THE FISCAL AGENT AND THE PAYING AGENTS

SECTION 6.01. *Appointment of Fiscal Agent.* The principal office of Bank of America National Trust and Savings Association in San Francisco, California, is hereby appointed Fiscal Agent for the City for the purpose of receiving all moneys which the City is required to deposit with the Fiscal Agent hereunder and to allocate, use and apply the same as provided in this Resolution. The City agrees that it will maintain a Fiscal Agent having a principal office in San Francisco, California, so long as any Bonds are outstanding and unpaid.

The City may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company doing business and having an office in the City and County of San Francisco, State of California, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Fiscal Agent may at any time resign by giving written notice to the City and by giving to the Bondholders notice by publication of such resignation, which notice shall be published at least once in a financial newspaper or journal printed in the English language and customarily published and of general circulation in San Francisco, California. Upon receiving such notice of resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective upon acceptance of appointment by the successor Fiscal Agent.

SECTION 6.02. *Appointment of Paying Agents.* The City may at any time appoint Paying Agents for the purpose of paying the principal of and interest on any of the Bonds presented for payment in New York, New York, or Chicago, Illinois. The Fiscal Agent shall enter into such arrangements with each Paying Agent as shall be necessary and desirable in order to enable such Paying Agent to carry out the duties of its office. The Fiscal Agent and any Paying Agents are hereby authorized to redeem the Bonds and interest coupons appertaining thereto when duly presented for payment at maturity, or on call and redemption or on purchase by the Fiscal Agent prior to maturity, and to cancel all Bonds and coupons upon payment thereof and to furnish to the City a certificate of such cancellation. The Fiscal Agent shall keep accurate records of all funds administered by it and of all Bonds and coupons paid and discharged. The Finance Officer is hereby authorized to compensate the Fiscal Agent and any Paying Agents for their respective services rendered pursuant to the provisions of this Resolution. The City may remove any Paying Agent, and any Paying Agent may resign, in the manner provided for the Fiscal Agent in Section 6.01; provided that any successor Paying Agent shall be a bank or trust company doing business and having an office in the city and state in which such removed or resigned Paying Agent was doing business.

SECTION 6.03. *Liability of Agents.* The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the City, and neither the Fiscal Agent nor any Paying Agent assumes any responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of this Resolution or of the Bonds or coupons, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it. Neither the Fiscal Agent nor any Paying Agent shall be liable in connection with the performance of its duties hereunder, except for its own negligence or wilful misconduct.

SECTION 6.04. *Notice to Agents.* The Fiscal Agent and any Paying Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Fiscal Agent and any Paying Agent may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered hereunder in good faith and in accordance therewith.

Neither the Fiscal Agent nor any Paying Agent shall be bound to recognize any person as the holder of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under this Resolution the Fiscal Agent or any Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence

of bad faith on the part of the Fiscal Agent or the Paying Agent, be deemed to be conclusively proved and established by a certificate of the City and such certificate shall be full warrant to the Fiscal Agent or the Paying Agent for any action taken or suffered under the provisions of this Resolution or any Supplemental Resolution upon the faith thereof, but in its discretion the Fiscal Agent or any Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

ARTICLE VII

MODIFICATION AND AMENDMENT OF THE RESOLUTION

SECTION 7.01. *Amendment by Consent of Bondholders.* This Resolution and the rights and obligations of the City and of the holders and registered owners of the Bonds and coupons may be modified or amended at any time by a Supplemental Resolution which shall become binding when the written consents of the holders of 60% in aggregate principal amount of the Bonds then outstanding, exclusive of Bonds disqualified as provided in Section 7.02 hereof, are filed with the Fiscal Agent. No such modification or amendment shall extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the City to pay the principal, or interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond without the express consent of the holder or registered owner of such Bond, nor reduce the percentages of Bonds required for the written consent to an amendment or modification, nor, without its written consent thereto, modify any of the rights or obligations of the Fiscal Agent.

This Resolution and the rights and obligations of the City and of the holders of the Bonds and the coupons may also be modified at any time by a Supplemental Resolution which shall become binding upon adoption, without the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes —

(a) to add to the covenants and agreements of the City in this Resolution contained, other covenants and agreements thereafter to be observed, or to surrender any right or power herein reserved to or conferred upon the City;

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Resolution, or in regard to questions arising under this Resolution, as the Council may deem necessary or desirable and not inconsistent with this Resolution, and which shall not adversely affect the interests of the holders of the Bonds; and

(c) to provide for the issuance of any Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of Article III.

SECTION 7.02. *Disqualified Bonds.* Bonds owned or held by or for the account of the City (but excluding Bonds held in any employees' retirement fund) shall not be deemed outstanding for the purpose of any consent or other action or any calculation of outstanding Bonds in this Article VII provided for, and shall not be entitled to consent to, or take any other action in this Article provided for.

SECTION 7.03. *Endorsement of Bonds Issued After Amendments.* Bonds delivered after the effective date of any action taken as hereinabove provided may, and if the Fiscal Agent so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Fiscal Agent as to such action, and in that case upon demand of the holder of any Bond outstanding at such effective date and presentation of his Bond for the purpose at the office of the Fiscal Agent and at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation shall be made on such Bond. If the City or the Fiscal Agent shall

so determine, new Bonds so modified as, in the opinion of the City and the Fiscal Agent, to conform to such Bondholders' action shall be prepared and delivered, and upon demand of the holder of any Bond then outstanding shall be exchanged at the office of the Fiscal Agent, without cost to each Bondholder, for Bonds then outstanding, upon surrender of such Bonds with all unmatured coupons appertaining thereto.

SECTION 7.04. *Amendatory Endorsement of Bonds.* The provisions of this Article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 8.01. *Events of Default and Acceleration of Maturities.* If one or more of the following events (herein called "events of default") shall happen, that is to say—

(a) if default shall be made in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) if default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable, and such default shall have continued for a period of thirty (30) days;

(c) if default shall be made by the City in the observance of any of the covenants, agreements or conditions on its part in this Resolution or in any Supplemental Resolution or in the Bonds contained, and such default shall have continued for a period of thirty (30) days; or

(d) if the City shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

then, and in each and every such case during the continuance of such event of default, the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Resolution or in the Bonds contained to the contrary notwithstanding.

SECTION 8.02. *Application of Funds Upon Acceleration.* All of the Revenues, including all sums in all of the funds provided for in Section 4.03 upon the date of the declaration of acceleration by the holders of the Bonds as provided in Section 8.01, and all sums thereafter received by the City hereunder shall be transmitted to the Fiscal Agent and shall be applied by the Fiscal Agent in the order following upon presentation of the several Bonds and coupons, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid—

First, to the payment of the costs and expenses of the Bondholders in declaring such event of default, including reasonable compensation to their agents, attorneys and counsel; and to the payment of the costs and expenses of the Fiscal Agent, if any, in carrying out the provisions of this Article VIII, including reasonable compensation to its agents, attorneys and counsel;

Second, in case the principal of the Bonds shall not have become due and shall not then be due and payable, to the payment of the interest in default in the order of the maturity of the installments of such

interest, with interest on the overdue installments at the rate of six per cent per annum (to the extent that such interest on overdue installments shall have been collected), such payments to be made ratably to the persons entitled thereto without discrimination or preference;

Third, in case the principal of the Bonds shall have become and shall be then due and payable, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal and installments of interest at the rate of six per cent per annum (to the extent that such interest on overdue installments of interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

SECTION 8.03. *Other Remedies of Bondholders.* Any Bondholder shall have the right, for the equal benefit and protection of all Bondholders similarly situated—

(a) by mandamus or other suit or proceeding at law or in equity, to enforce his right against the City and any of the officers, agents and employees of the City, and to compel the City or any such officers, agents or employees to perform and carry out their duties under the Ordinance and the Law and their agreements with Bondholders as provided in this Resolution;

(b) by a suit in equity, to require the City to account as the trustee of an express trust; or

(c) by suit in equity, to enjoin any acts or things which are unlawful or violate the Bondholders' rights.

SECTION 8.04. *Non-waiver.* Nothing in this Article VIII or in any other provision of this Resolution, or in the Bonds or in the coupons, shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective holders of the Bonds and coupons at the respective dates of maturity, as herein provided, out of the Revenues herein pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such holders to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and coupons.

A waiver of any default or breach of duty or contract by any Bondholder shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on the subsequent default or breach. No delay or omission of any holder of any of the Bonds or coupons to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Bondholders by the Ordinance and the Law or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the holders of Bonds.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bondholders, the City and the Bondholders shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

SECTION 8.05. *Actions by Fiscal Agent as Attorney-in-Fact.* Any suit, action or proceeding which any holder of Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Fiscal Agent for the equal benefit and protection of all holders of Bonds similarly situated and the Fiscal Agent is hereby appointed (and the successive respective holders and registered owners of the Bonds and interest coupons issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective holders and registered owners of the Bonds and interest coupons for the purpose of bringing any such suit, action, or proceeding and to do and perform any and all acts and things for and in behalf of the respective holders and registered owners of the Bonds and coupons as a class or classes, as may be necessary or advisable in the opinion of the Fiscal Agent as such attorney-in-fact.

SECTION 8.06. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the holders of Bonds is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Ordinance or the Law or any other law.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. *Liability of City Limited to Revenues.* Notwithstanding anything in this Resolution contained, the City shall not be required to advance any moneys derived from the proceeds of any taxes collected in the City, or from any source of income other than the Revenues, for the payment of the principal of or interest on the Bonds, for the maintenance and operation of the Enterprise or for the performance of any covenants herein contained. The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

The Bonds shall be revenue bonds, payable exclusively from the Revenues as in this Resolution provided. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Bonds or their interest. The holders of the Bonds, or the coupons thereto appertaining, shall never have the right to compel the exercise of the taxing power of the City or the forfeiture of any property of the City. The principal of and interest on the Bonds and any premiums upon the redemption of any thereof shall not be a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as in this Resolution provided.

SECTION 9.02. *Benefits of Resolution Limited to Parties.* Nothing in this Resolution, expressed or implied, is intended to give any person other than the City, the Fiscal Agent and the holders of the Bonds and coupons, any right, remedy or claim under or by reason of this Resolution. Any covenants, stipulations, promises or agreements in this Resolution contained by and on behalf of the City shall be for the sole and exclusive benefit of the holders of the Bonds and coupons and the Fiscal Agent.

SECTION 9.03. *Successor Is Deemed Included in All References to Predecessor.* Whenever in this Resolution or any Supplemental Resolution either the City or the Fiscal Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Resolution contained by or on behalf of the City or the Fiscal Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 9.04. *Discharge of Resolution.* If the City shall pay and discharge the entire indebtedness on all Bonds outstanding in any one or more of the following ways—

- (a) by well and truly paying or causing to be paid the principal of and interest on all Bonds outstanding, as and when the same become due and payable;
- (b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which is fully sufficient to pay all Bonds outstanding; including all principal, interest and redemption premiums; or
- (c) by depositing with the Fiscal Agent, in trust, direct negotiable obligations of the United States of America or general obligation bonds of the State of California in such amount as the Fiscal Agent shall determine will, together with the interest to accrue thereon and all other available funds then held by the Fiscal Agent, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates—

and, if such Bonds are to be redeemed prior to maturity thereof, notice of such redemption shall have been given as in this Resolution provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds or interest coupons shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in this Resolution and all other obligations of the City under this Resolution shall cease and terminate, except only the obligation of the City to pay or cause to be paid to the holders of the Bonds and interest coupons not so surrendered and paid all sums due thereon. Notice of such election shall be filed with each Paying Agent.

Any funds held by any Paying Agent, at the time of receipt by the Paying Agent of such notice from the City, which are not required for the purpose above mentioned, shall be paid over to the Fiscal Agent.

SECTION 9.05. *Execution of Documents by Bondholders.* Any request, declaration or other instrument which this Resolution may require or permit to be executed by Bondholders may be in one or more instruments of similar tenor, and shall be executed by Bondholders in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Bondholder or his attorney of such request, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the State or Territory in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the amount of Bonds transferable by delivery held by any person executing such request, declaration or other instrument or writing as a Bondholder, and the numbers thereof, and the date of his holding such Bonds, may be proved by a certificate, which need not be acknowledged or verified, satisfactory to the Fiscal Agent, executed by a trust company, bank or other depository wherever situated, showing that at the date therein mentioned such person had on deposit with such depository the Bonds described in such certificate. Continued ownership after the date of deposit stated in such certificate may be proved by the presentation of such certificate if the certificate contains a statement by the depository that the Bonds therein referred to will not be surrendered without the surrender of the certificate to the depository, except with the consent of the Fiscal Agent. The Fiscal Agent may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The ownership of registered Bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books.

Any request, declaration or other instrument or writing of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the City in good faith and in accordance therewith.

SECTION 9.06. *Waiver of Personal Liability.* No officer, agent or employee of the City, or of any department, board or agency thereof, shall be individually or personally liable for the payment of the principal of or interest on the Bonds; but nothing herein contained shall relieve any such officer, agent or employee from the performance of any official duty provided by law.

SECTION 9.07. *Publication for Successive Weeks.* Any publication to be made under the provisions of this Resolution in successive weeks may be made in each instance upon any business day of the week and need not be made on the same day of any succeeding week or in the same newspaper for any or all of the successive publications, but may be made in different newspapers.

SECTION 9.08. *Partial Invalidity.* If any one or more of the covenants or agreements, or portions thereof, provided in this Resolution on the part of the City (or of the Fiscal Agent) to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions thereof, shall be null and void and shall be deemed separable from the remaining covenants and agreements or portions thereof and shall in no way affect the validity of this Resolution or of the Bonds; but the Bondholders shall retain all the rights

and benefits accorded to them under the Law or any other applicable provisions of law. The Council hereby declares that it would have adopted this Resolution and each and every other section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases of this Resolution or the application thereof to any person or circumstances may be held to be unconstitutional, unenforceable or invalid.

SECTION 9.09. *Destruction of Canceled Bonds.* Whenever in this Resolution provision is made for the surrender to the City of any Bonds or coupons which have been paid or canceled pursuant to the provisions of this Resolution, the City may, by a written request, direct the Fiscal Agent to destroy such Bonds or coupons and furnish to the City a certificate of such destruction.

SECTION 9.10. *Repeal of Inconsistent Resolutions.* Any resolution of the Council, and any part of any resolution, inconsistent with this Resolution is hereby repealed to the extent of such inconsistency.

SECTION 9.11. *Effective Date of Resolution.* This Resolution shall take effect from and after its adoption.

PASSED AND ADOPTED on April 5, 1971, by the following vote:

AYES: Councilmen Dewhirst, Ivey, Stofle, Pipes, Herman and Mayor Vaughan

NOES: None

ABSENT: Councilman Yoshida

JAMES H. VAUGHAN

Mayor of the City of Merced

ALLAN R. SCHELL

City Clerk of the City of Merced

CITY CLERK'S CERTIFICATE

I, ALLAN R. SCHELL, City Clerk of the City of Merced, California, hereby certify as follows:

The foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the City Council of said City duly and regularly and legally held at the regular meeting place thereof on April 5, 1971, of which meeting all of the members of the Council had due notice and at which a majority thereof were present.

At said meeting said resolution was adopted by the following vote:

AYES: Councilmen Dewhirst, Ivey, Stofle, Pipes, Herman and Mayor Vaughan

NOES: None

ABSENT: Councilman Yoshida

I have carefully compared the same with the original minutes of said meeting on file and of record in my office, and the foregoing is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes.

Said resolution has not been amended, modified or rescinded since the date of its adoption, and is now in full force and effect.

Dated: April 5, 1971.

City Clerk of the City of Merced, California

ALLAN R. SCHELL

(Seal)

OFFICIAL NOTICE OF SALE

\$3,250,000

CITY OF MERCED 1978 SEWER REVENUE BONDS

NOTICE IS HEREBY GIVEN that sealed proposals will be received and opened by the City Clerk of the City of Merced, State of California (the "City"), on behalf of the City Council of the City, at the office of Messrs. Orrick, Herrington, Rowley & Sutcliffe, Eleventh Floor, 600 Montgomery Street, San Francisco, California 94111, on

MONDAY, APRIL 10, 1978

at 11:00 o'clock A.M. for the purchase of \$3,250,000 principal amount of sewer revenue bonds of the City designated "1978 Sewer Revenue Bonds" (the "Bonds") authorized to be issued under the provisions of a resolution of the City Council of the City adopted on April 5, 1971, as supplemented by a supplemental resolution of the City Council of the City adopted on March 20, 1978 (the "Resolutions"), and pursuant to the provisions of the Charter of the City and Ordinance No. 1007, as amended by Ordinance No. 1214 (the "Ordinance"), adopted pursuant thereto. The Bonds are more particularly described in the Resolutions (which are incorporated herein by reference) and copies thereof will be furnished to any interested bidder upon request. The Bonds are generally described as follows:

ISSUE AND DENOMINATION: \$3,250,000, consisting of 650 Bonds of the denomination of \$5,000 each, numbered from 1 to 650, both inclusive.

DATE: The Bonds are dated April 1, 1978.

INTEREST RATE: Maximum not to exceed eight per cent (8%) per annum, payable on November 1, 1978 and semiannually thereafter on May 1 and November 1 in each year. Bidders must specify the rate or rates of interest which the Bonds shall bear. Bidders may specify any number of separate rates of interest and the same rate or rates may be repeated as often as desired, provided that: (i) all Bonds of each maturity shall bear one rate of interest; (ii) the difference between the lowest and highest rates specified in any bid shall not exceed 2%; (iii) each interest rate specified must be in a multiple of 1/20 of 1% and a zero rate of interest cannot be specified; (iv) no Bond shall bear more than one rate of interest, no interest payment shall be evidenced by more than one coupon and supplemental coupons will not be permitted; (v) each Bond shall bear interest from its date to its stated maturity date at the interest rate specified in the bid; and (vi) any premium must be paid in full in bank funds as part of the purchase price, and no bid will be accepted which contemplates the cancellation of any interest coupons or the waiver of any interest or other concession by the bidder as a substitute for payment in full of the purchase price in bank funds. Bids which do not conform to the terms of this paragraph will be rejected.

MATURITIES: The Bonds mature serially in consecutive numerical order, from lower to higher, as follows:

Maturity Date (May 1)	Principal Amount	Maturity Date (May 1)	Principal Amount
1979.....	\$ 10,000	1994.....	\$115,000
1980.....	10,000	1995.....	125,000
1981.....	10,000	1996.....	130,000
1982.....	10,000	1997.....	140,000
1983.....	15,000	1998.....	150,000
1984.....	15,000	1999.....	160,000
1985.....	10,000	2000.....	170,000
1986.....	15,000	2001.....	185,000
1987.....	15,000	2002.....	195,000
1988.....	15,000	2003.....	210,000
1989.....	15,000	2004.....	225,000
1990.....	15,000	2005.....	240,000
1991.....	15,000	2006.....	260,000
1992.....	100,000	2007.....	275,000
1993.....	105,000	2008.....	295,000

REDEMPTION: Bonds maturing by their terms on or prior to May 1, 1991 (an aggregate principal amount of \$170,000), are not sub-

ject to redemption prior to their fixed maturity dates. Bonds maturing by their terms on or after May 1, 1992 (an aggregate principal amount of \$3,080,000), are subject to redemption prior to their fixed maturity dates, at the option of the City, on May 1, 1991, but not prior thereto, and on any interest payment date thereafter, as a whole or in part in inverse order of maturity and by lot within any one maturity, from funds derived by the City from any source, at the principal amount thereof and accrued interest to date of redemption, plus a premium of one-quarter of one per cent (1/4 of 1%) of such principal amount for each whole year and for the fraction of a year, if any, remaining from the date fixed for redemption to the stated maturity date of the Bonds so redeemed.

EXECUTION AND REGISTRATION: The Bonds will be coupon bonds executed by the manual signature of at least one official authorized to execute the Bonds. The Bonds are registrable only as to both principal and interest with the privilege of deregistration and conversion into coupon bonds at owner's expense.

PURPOSE: The Bonds are issued pursuant to the Ordinance (which incorporates all of the provisions of the Revenue Bond Law of 1941 except for the requirement of an election) for the purpose of the acquisition and construction of improvements to an Enterprise comprising the municipal sewer system of the City.

SECURITY: The Bonds are revenue bonds, payable exclusively from Revenues (as defined in the Resolutions). A Reserve Account will be established as provided in the Resolutions in an amount equal to the Maximum Annual Debt Service (as defined in the Resolutions) on the Bonds and the outstanding City of Merced 1971 Sewer Revenue Bonds. Bidders are referred to the Resolutions and to the Official Statement for further particulars.

COVENANTS: The Resolutions contain covenants for the further protection of the Bonds, including covenants to establish and collect rates, fees and charges for the use of the Enterprise in order to provide for bond service requirements and for the expenses of maintenance and operation of the Enterprise. Such rates, fees and charges must be established to produce annual net revenues equal to at least the minimum amounts thereof specified in the Resolutions. The Resolutions and the Bonds may be amended and modified subject to the restrictions set forth in the Resolutions. Bidders are referred to the Resolutions for further details as to the covenants of the City.

FISCAL AGENT: The principal office of Bank of America National Trust and Savings Association in San Francisco, California, has been appointed Fiscal Agent for the payment of the principal of and interest on the Bonds and for the registration thereof and will hold in trust the Interest Account, Principal Account and Reserve Account provided for in the Resolutions, and all moneys paid to it out of Revenues for the payment of bond principal and interest.

TAX EXEMPT STATUS: In the event that prior to the delivery of the Bonds (a) the income received by any private holder from bonds of the same type and character shall be declared to be taxable (either at the time of such declaration or at any fixture date) under any federal income tax laws, either by the terms of such laws or by ruling of a federal income tax authority or official which is followed by the Internal Revenue Service, or by decision of any federal court, or (b) any federal income tax law is adopted which will have a substantial adverse tax effect on holders of the Bonds as such, the successful bidder may, at his option, prior to the tender of the Bonds by the City, be relieved of his obligation under the contract to purchase the Bonds and in such case the deposit accompanying his bid will be returned.

LEGAL OPINION: The legal opinion of Messrs. Orrick, Herrington, Rowley & Sutcliffe, of San Francisco, California, approving the validity of the Bonds, will be furnished to the successful bidder without charge. A copy of the opinion, certified by the official in whose office the original is filed, will be printed on each Bond without charge to the successful bidder.

TERMS OF SALE

HIGHEST BID: The Bonds will be awarded to the highest bidder, considering the interest rate or rates specified and the premium offered, if any. The highest bid will be determined by deducting the amount of the premium (if any) from the total amount of interest which the City would be required to pay from the date of the Bonds to their respective maturity dates at the coupon rate or rates specified in the bid, and the award will be made on the basis of the lowest net interest cost to the City thus determined. The purchaser must pay accrued interest from the date of the Bonds to the date of delivery. All interest shall be computed on a 360-day year basis. The cost of printing the Bonds will be borne by the City.

RIGHT OF REJECTION: The City Council of the City reserves the right, in its discretion, to reject any and all bids and to waive any irregularity or informality in any bid.

PROMPT AWARD: The City Council of the City will meet and will review bids at 7:30 P.M. on the date above specified and will take action awarding the Bonds or rejecting all bids not later than 26 hours after the expiration of the time herein prescribed for the receipt of proposals unless such time of award is waived by the successful bidder.

PROMPT DELIVERY: Delivery of the Bonds will be made to the successful bidder at the office of the Fiscal Agent in San Francisco, California, or at any other place agreed upon by the City and the successful bidder, on April 17, 1978, or as soon thereafter as the Bonds can be prepared, which is estimated to be within seven (7) days from the date of the sale herein specified. Payment of the purchase price of the Bonds must be made in funds immediately available to the City at the place of delivery.

RIGHT OF CANCELLATION: The successful bidder shall have the right, at his option, to cancel the contract of purchase if the City shall fail to execute the Bonds and tender the same for delivery within sixty (60) days from the date of sale thereof, and in such event the successful bidder shall be entitled to the return of the deposit accompanying his bid.

FORM OF BID: All bids must be for not less than all of the Bonds, and for not less than the par value thereof and accrued interest to date of delivery. A form of bid will be enclosed with each copy of the Official Statement hereinafter referred to, and bidders are requested, but not required, to use a copy of such form. Each bid, together with bidder's check, must be enclosed in a sealed envelope addressed to the City Clerk of the City, c/o Orrick, Herrington, Rowley & Sutcliffe, Eleventh Floor, 600 Montgomery Street, San Francisco, California 94111, and endorsed "Proposal for City of Merced 1978 Sewer Bonds," and be delivered so as to be received by 11:00 A.M. on April 10, 1978.

BID CHECK: With each bid must be submitted a certified check or cashier's check for \$65,000 drawn on a bank or trust company

transacting business in the State of California, payable to the order of the City to secure the City from any loss resulting from the failure of the bidder to comply with the terms of his bid. Checks of the unsuccessful bidders will be returned by the City by mail upon the award of the Bonds. No interest will be paid upon the deposit made by any bidder.

NET INTEREST COST: Bidders are requested, but not required, to supply an estimate of the total net interest cost to the City on the basis of their respective bids, which shall be considered as informative only and not binding on either the bidder or the City.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be imprinted on the Bonds, but such numbers shall not constitute a part of the contract evidenced by the Bonds and no liability shall hereafter attach to the City or any of the officers or agents thereof because of or on account of said numbers. Any error or omission with respect to said numbers shall not constitute cause for refusal by the successful bidder to accept delivery of and to pay for the Bonds.

ARBITRAGE CERTIFICATE: On the basis of the facts, estimates and circumstances (including covenants of the City) in existence on the date of issue of the Bonds it is not expected that the proceeds of the Bonds will be used in a manner that will cause the Bonds to be arbitrage bonds and the City will furnish to the successful bidder at the time of delivery of the Bonds an arbitrage certificate certifying to the foregoing.

OFFICIAL STATEMENT: The City will furnish to the successful bidder, at no charge, 200 copies of the Official Statement. At the time of delivery of the Bonds to the successful bidder, the City will furnish a certificate to the effect that at the time of sale of the Bonds and at all times prior thereto, the Official Statement did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

NO LITIGATION CERTIFICATE: At the time of payment for and delivery of the Bonds, the City will furnish the successful bidder a certificate that there is no litigation pending affecting the validity of the Bonds.

INFORMATION AVAILABLE: Requests for copies of the Resolutions and the Official Statement pertaining to the Bonds, or for other information concerning the City, should be addressed to Loeb Rhoades, Hornblower & Co., Financing Consultants to the City, Transamerica Pyramid, Forty-seventh floor, San Francisco, California 94111 (Telephone (415) 982-1961).

March 20, 1978.

ALLAN R. SCHELL

City Clerk of the City of Merced

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